The Central Bank of the Russian Federation

Guidelines for the Single State Monetary Policy in 2010 and for 2011 and 2012

Approved by the Bank of Russia Board of Directors on November 11, 2009

107016 Moscow, 12 Neglinnaya St.

Contents

I. Medium-term monetary policy principles

Over the next three years, the objective of the single state monetary policy will be, as before, to reduce inflation to 9-10% in 2010 and to 5-7% in 2012. While monetary policy will retain its anti-inflationary emphasis, efforts taken by the Bank of Russia in the field of monetary regulation in the short term will largely aim to minimise the negative impact of the global financial and economic crisis on the Russian economy and banking sector.

The Bank of Russia shares the Russian government's assessments of the external and domestic conditions of the Russian economy, and consequently, the possible scenarios for its development in 2010 and in the period up to 2012. In the period ahead, the Bank of Russia will increase emphasis on keeping inflation on a downward trend. The Bank of Russia will use all monetary policy instruments at its disposal to restrain inflation.

During the forthcoming period, the Bank of Russia will finish laying the groundwork for inflation targeting and the transition to a free-floating rouble.

Set in January 2009, the broad range of permissible fluctuations in the rouble value of the bi-currency euro-dollar basket enables the Bank of Russia to significantly scale down its rate-setting presence on the domestic foreign exchange market. The rouble's exchange rate dynamics will be largely determined by fundamental macroeconomic factors. In line with its foreign exchange policy, the Bank of Russia will maintain foreign exchange reserves at a level necessary for a positive assessment of Russia's long-term solvency.

The scaling down of Bank of Russia interventions on the domestic foreign exchange market may have a significant impact on the dynamics of Russia's international reserves and reduce the effect of monetary authorities' net foreign assets on growth in money supply. To ensure that money supply matches money demand, the Bank of Russia will continue the practice of refinancing banks. This will allow it to control money supply dynamics more effectively and help increase the role of the Bank of Russia's interest rate policy in slowing inflation, and creating monetary conditions for the functioning of the economy and for inflation expectations among economic agents.

The success of the monetary policy will depend on the implementation of a conservative budget policy and on improvements in the intra-year spread of budget expenditure.

As inflation slows, the Bank of Russia will cut interest rates on its operations. Bank of Russia interest rates on the main market instruments for bank refinancing will increasingly affect interest rates on the money market.

In the course of regulating liquidity, the Bank of Russia will continue to give credit institutions greater access to refinancing instruments. As the financial market and its infrastructure undergo further improvements, this will facilitate a more effective redistribution of funds in the economy.

At the same time, decisions to inject or absorb liquidity will be made taking into consideration the dynamics of the macroeconomic fundamentals and the state of the financial market. If necessary, the Bank of Russia will use the reserve requirements as a direct means of regulating banking sector liquidity.

The Bank of Russia will also use the instruments of monetary regulation for the purpose of maintaining the stability of the banking and payment systems, primarily maintaining an adequate liquidity level in the banking sector.

To switch to inflation targeting, the Bank of Russia will encourage the development of economic forecasting and analysis of monetary policy measures, and will upgrade methodologies for modelling economic processes. It attaches special importance to the transparency of monetary policy, which can be ensured by explaining to the public at large the causes and expected consequences of decisions taken.

II. Russia's economic development and monetary policy in 2009

II.1. Inflation and economic growth

The conditions under which the Russian economy developed in January-September 2009 were considerably worse than a year earlier. As a result of the global economic crisis and the fall in demand for Russian exports amid the year-on-year decline in the world price of oil, and the net private capital outflow, Russia's GDP contracted by 10.4% in the first half of 2009. The most significant decline in production was registered in the manufacturing and construction sectors.

The downturn in production was accompanied by a fall in the number of jobs, and a rise in jobless numbers. At the end of September, the number of unemployed stood at 7.6% of the economically active population, compared with 6.2% a year earlier.

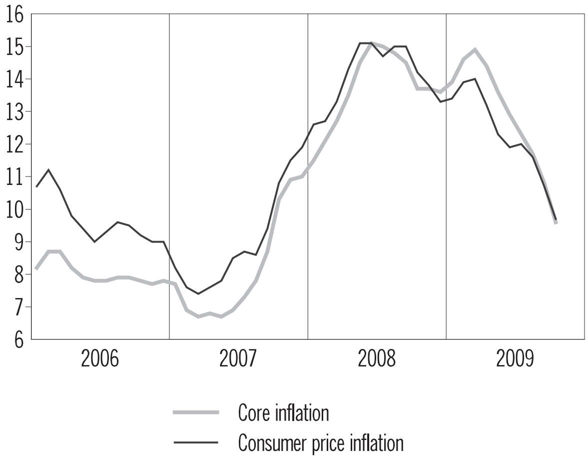
Real disposable money income fell by 1.1% in January-September 2009, compared with the same period of 2008. Household spending on goods and services declined by an estimated 5.8% in real terms during this period. The fall in output and the worsened borrowing conditions affected fixed capital investments, which contracted by 18.9%, while in January-September 2008 they had expanded by 16.5%. As a result, domestic demand declined significantly.

Government policy aimed at boosting domestic demand led to growth in general government expenditure on final consumption. Overall, federal budget expenditure in January-September 2009 was higher than in the same period last year, and exceeded federal budget income. The federal budget deficit was estimated at 4.7% of GDP.

The devaluation of the rouble due to the financial and economic crisis, and the renewed price growth on world commodity markets in early 2009, drove price dynamics up. At the same time, the contraction in demand restrained price growth. The appreciation of the rouble that began at the end of the first quarter also restrained price increases on the consumer goods market.

Under this situation, in October 2009 consumer prices rose by 8.1% compared with December 2008, i.e. by 3.5 percentage points less than in the same period of 2008. Core inflation slowed by 3.9 percentage points to 7.6%. On an annualised basis, consumer prices gained 9.7% as against 14.2% in October 2008, while prices of goods and services included in the core inflation calculation climbed by an estimated 9.6%, compared to 13.7% a year earlier.

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



Consumer price inflation and core inflation (since start of year, on accrual basis, %)

	2006		2007		2008		2009	
	core inflation	inflation	core inflation	inflation	core inflation	inflation	core inflation	inflation
January	0.8	2.4	0.6	1.7	1.1	2.3	1.3	2.4
February	2.0	4.1	1.1	2.8	2.1	3.5	2.9	4.1
March	2.8	5.0	1.7	3.4	3.2	4.8	4.3	5.4
April	3.2	5.4	2.2	4.0	4.5	6.3	5.2	6.2
May	3.6	5.9	2.5	4.7	5.7	7.7	5.7	6.8
June	3.9	6.2	3.0	5.7	6.7	8.7	6.0	7.4
July	4.5	6.9	3.9	6.6	7.6	9.3	6.3	8.1
August	5.1	7.1	5.0	6.7	8.6	9.7	6.8	8.1
September	5.9	7.2	6.7	7.5	10.1	10.6	7.3	8.1
October	6.5	7.5	8.9	9.3	11.5	11.6	7.6	8.1
November	7.1	8.2	10.1	10.6	12.7	12.5		
December	7.8	9.0	11.0	11.9	13.6	13.3		

Although overall consumer price growth slowed down in January-October 2009, different groups of goods and services demonstrated diverse price dynamics. There was a significant slowing of growth in food prices – to 5.2%, as against 13.9% in January-October 2008. Growth in service prices slowed by 3.2 percentage points to 10.9%. However, growth in non-food prices accelerated by 1.7 percentage points to 9.0%.

For 2009 as a whole, consumer price inflation may be markedly less than 11%.

II.2. Balance of payments

Russia's balance of payments in January-September 2009 was affected by the contraction of external and internal demand and the deteriorated terms of foreign trade, which caused significant proportional changes in the cross-border movement of goods, services and capital. The contraction in foreign trade volumes was accompanied by a private sector capital outflow. As a result, in January-September 2009 Russia registered a negative net private capital flow.

The balance of trade surplus in this period decreased to $74.8 billion compared with January-September 2008, as export prices declined faster than import prices (in January-September 2008 the balance of trade surplus stood at $155.0 billion). The current account surplus declined by a factor of 2.9, to $32.1 billion.

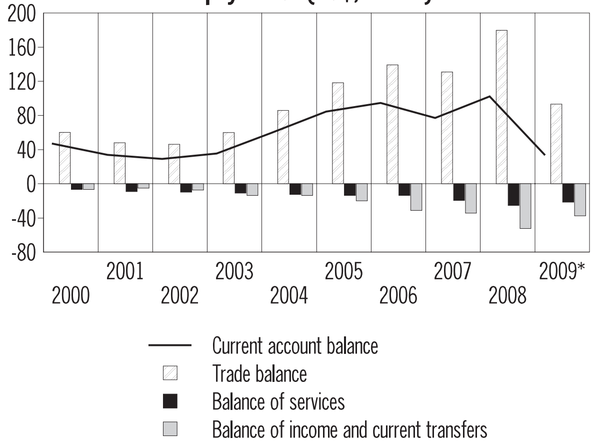
The value of exported goods amounted to $206.3 billion, down by a factor of 1.8 from January-September 2008 ($373.6 billion). The decline in exports resulted from a contraction in export volumes by 3.2% and a fall in average contract prices by 43.0%. As a result of the deteriorated price situation, revenue from fuel and energy exports fell almost by half: oil exports were down to $69.4 billion, petroleum product exports to $32.3 billion, and natural gas exports to $27.8 billion. Other major commodity groups demonstrated similar dynamics.

Imports declined significantly as domestic demand contracted: from $218.6 billion in January-September 2008 to $131.5 billion in the same period of 2009. The fall was due to a contraction in import volumes. The most significant decline was registered in imports of machinery, equipment and transport vehicles.

The deficit in the balance of services decreased to $14.2 billion (from $19.5 billion in January-September 2008). Exports of services were down 19.5%, and imports of services 22.2%. As a result, the value of services provided to non-residents is estimated at $31.0 billion, and services consumed by the economy at $45.1 billion.

The negative balance of employees' compensation decreased by a factor of 1.8 compared with January-September 2008, and stood at $6.2 billion, as wages paid to non-residents

Key current account parameters of Russia's balance of payments (US$, billion)



** Estimate.*

were devalued in dollar terms and the use of foreign labour declined.

The deficit in the balance of investment income contracted from $28.5 billion in January-September 2008 to $20.5 billion in the same period of 2009. Income receivable is estimated at $23.2 billion and income payable $43.7 billion. The surplus in the balance of investment income of the general government and monetary authorities stood at $5.2 billion. Its decrease (from $14.2 billion in January-September 2008) resulted from a decline in reserve assets and a fall in returns from their placement. Russian companies' decreased profits in 2008 and the first nine months of 2009 led to a reduction in dividend payments and reinvested income of non-residents, which caused the deficit in the balance of private sector investment income to decline by a factor of 1.7 to $25.7 billion (as against $42.7 billion in January-September 2008).

The economy's external obligations rose by $14.3 billion in January-September 2009 (in January-September 2008 they increased by $135.8 billion). General government debt to non-residents contracted by $200 million as a result of the continued planned repayment of state foreign debt and operations on the secondary market, and banking sector liabilities decreased by $33.3 billion. Other sectors[1] saw an increase of $34.7 billion in their liabilities.

As funds raised abroad declined sharply, growth in resident foreign assets (less reserves) slowed. In January-September 2009, this growth was estimated at $60.9 billion, a decrease by a factor of 2.2 from the same period last year ($136.2 billion). Banking sector claims on non-residents increased by $7.8 billion, whereas in January-September 2008 they grew by $38.2 billion. Foreign assets of other sectors of the economy increased by $50.6 billion, representing almost half of growth registered in January-September 2008 ($96.3 billion).

Net private capital outflow in January-September 2009 was estimated at $62.2 billion, compared with $2.3 billion in the same period last year.

The change in the situation concerning the cross-border movement of goods, services and capital required the Bank of Russia to step up activity to influence the domestic foreign exchange market, through currency interventions, among other measures. As a result, the contraction in foreign exchange reserves in January-September 2009 due to operations that were accounted for in the balance of payments stood at $21.8 billion (in the same period of 2008 foreign exchange reserves increased by $85.7 billion). As of October 1, 2009, Russia's international reserves had decreased to $413.4 billion. However, the contraction in imports has improved the reserves adequacy indicator: their accumulated volume was large enough to finance goods and service imports for 21 months (as against 18 months in January-September 2008).

According to a Bank of Russia estimate, if the price of oil averages at $59.5 per barrel in 2009, the current account surplus may stand at $34.2 billion. The surplus in the balance of goods and services is estimated at $71.8 billion. Net private sector capital outflow is expected at $40.0 billion, and growth in foreign exchange reserves at $2.2 billion.

II.3. Exchange rate

The situation on the domestic foreign exchange market changed significantly in 2009 under the influence of external factors. Given this situation, Bank of Russia exchange rate policy aimed to ensure the stability of the national fi-

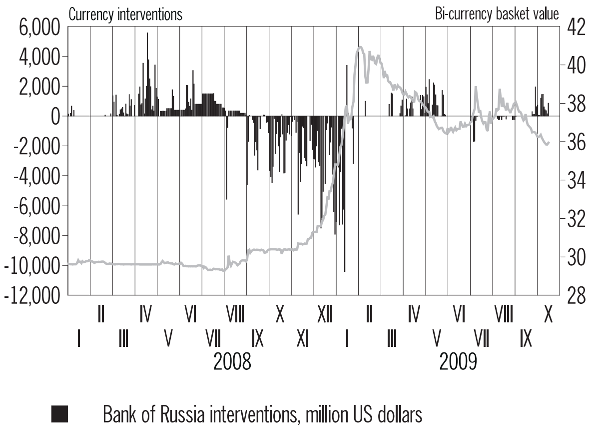
[1] *Other sectors comprise non-financial corporations, financial corporations other than credit institutions, households, and non-profit organisations providing services to households.*

nancial system and to mitigate the impact of the global financial crisis on the Russian economy.

The rapid worsening of the crisis, which began in 2008 and was accompanied by a sharp drop in oil prices and a major outflow of foreign investors' capital from the Russian market, determined the developments on the Russian financial markets in the early part of 2009. A major setback for Russia was the large foreign debt owed by the financial and non-financial sectors, of which a large share was due in the fourth quarter of 2008. As this occurred at a time when stock markets were plummeting and the value of collateral was depreciating, a large number of creditors began demanding additional security (margin calls) or early repayment of debts. As a result, the corporate sector had to use most of its disposable funds to purchase foreign currency.

In this situation, the Bank of Russia decided to readjust the parameters of its exchange rate policy to meet the changed external and internal conditions. In January, it continued to gradually readjust the limits of permissible fluctuations in the value of the bi-currency basket, the operational benchmark of the Bank of Russia exchange rate policy (the Bank of Russia began this readjustment in the autumn of 2008). During this period, demand for foreign currency on the domestic foreign exchange market greatly surpassed supply, forcing the Bank of Russia to sell foreign currency (in January 2009 Bank of Russia net sales of foreign currency reached $39.6 billion).

Bank of Russia interventions on domestic forex market and rouble value of bi-currency basket

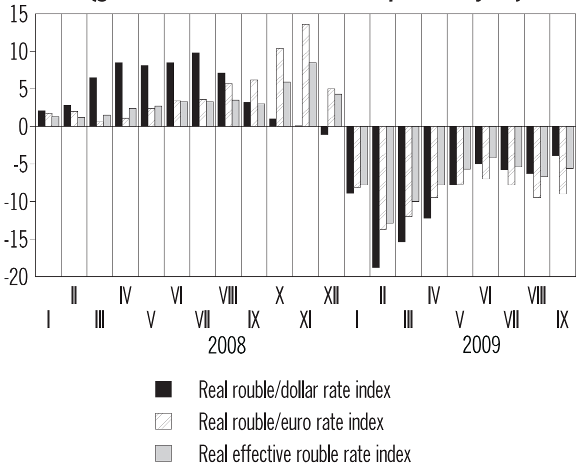


By the latter part of January, the exchange rate of the rouble against a basket of major world currencies had reached a level which, according to Bank of Russia assessments, ensured for Russia a balanced current account and allowed the Bank of Russia to complete its readjustment of the upper and lower limits of the range of fluctuations in the value of the bi-currency basket, setting them at 41 roubles and 26 roubles, respectively.

The expansion in the range of fluctuations in the value of the bi-currency basket represented a step forward in accomplishing the task of gradually improving the flexibility of the exchange rate setting. At the same time, the Bank of Russia continued to conduct interventions within the new band, to ensure stability and prevent excessive volatility of the rouble. Therefore, in February 2009 the Bank of Russia began to use in its exchange rate policy a floating range of permissible bi-currency basket value fluctuations, whose limits were automatically readjusted depending on the volume of Bank of Russia interventions. By the beginning of August it was established that when the Bank of Russia bought or sold $700 million worth of foreign currency (before June this figure was $500 million), the limits of the floating range of bi-currency basket value fluctuations shifted up or down by 5 kopecks.

In the second half of February 2009, the large-scale anti-crisis measures implemented in developed and emerging economies led to a gradual stabilisation of financial markets, which prompted growth among global stock market indices and a gradual recovery of raw material prices. The rise in the price of oil, which continued for several months, and high interest rates in the Russian economy amid the managed floating exchange rate regime, stimulated a flow of capital into the Russian stock market and a significant increase in Russian stock indices. All of these factors changed the situation on the domestic foreign exchange market: the sustained excess of supply over demand for foreign currency caused the rouble to appreciate. In June these trends in oil price and stock index dynamics weakened, and dynamics of the rouble exchange rate ceased to demonstrate any clear trends.

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



In July and August, the domestic foreign exchange market remained stable. Exchange rate volatility did not exceed permissible levels, and the Bank of Russia's activity on the market was minimal. On July 10, the Bank of Russia widened the permissible range of fluctuations in the value of the bi-currency basket from 2 roubles to 3 roubles.

In September, the continued rise in the price of oil on world markets and the persisting disparity between interest rates on domestic and foreign markets, made investment in Russian assets more attractive. As a result, capital inflow resumed and the rouble started to follow an upward trend. Throughout the period under review, the Bank of Russia bought foreign currency on the domestic foreign exchange market to dampen fluctuations in the rouble exchange rate.

Overall in January-September, the Bank of Russia was a net seller of foreign currency: net sales of foreign currency during this period totalled $8.1 billion. However, the direction of Bank of Russia currency interventions changed in this period: in certain periods the Bank of Russia sold foreign currency (it sold $39.6 billion in January and a total of $5.3 billion in July and August), while in other periods it bought foreign currency (in February-June it bought a total of $34.2 billion and in September $2.6 billion).

As of October 1, 2009, the official US dollar/rouble rate was 30.0087, and the official euro/rouble rate was 43.8877. This represents an increase of 2.1% and 5.9% since the beginning of the year, respectively. In September 2009, the real effective rouble rate against foreign currencies fell by 5.6% compared with December 2008.

II.4. Monetary policy implementation

Bank of Russia monetary policy decisions are based on analysis of internal and external macroeconomic trends, inflation and exchange rate expectations, and dynamics of monetary and credit aggregates. The change in monetary policy conditions in the second half of 2008 made it increasingly important for the Bank of Russia to maintain the stability of the banking system and financial markets and to mitigate the adverse impact of the global economic and financial crisis on the Russian economy. At the same time, the principal objective of the monetary policy is, as before, to reduce inflation and keep it at a level conducive to long-term sustainable economic growth.

As the negative trends that emerged in 2008 continued at the beginning of 2009, the Bank of Russia extended for the first half of the year its recommendations for credit institutions not to build up their foreign assets and net balance-sheet foreign currency positions. To contain inflationary pressure, the Bank of Russia raised interest rates at the start of 2009 on its operations, without changing the refinancing rate.

The stabilisation of the situation on the domestic foreign exchange market reduced devaluation expectations. In April, inflation and inflationary expectations began to follow a downward trend. At the same time, despite efforts taken by the Bank of Russia to provide roubles to credit institutions, the cost of credit remained high. The significant decline in banking sector credit supply, and in demand for credit on the part of economic agents, led to a reduction in overall debt on bank loans in February-September 2009. In view of these circumstances, the Bank of Russia Board of Directors cut interest rates eight times in the period from April through October. It reduced the refinancing rate from 13% to 9.5% p.a., while interest rates on Bank of Russia operations were reduced by 2.25-3.75 percentage points.

The changes in Bank of Russia interest rates caused short-term interbank credit rates to fall. Specifically, the average weighted overnight rouble MIACR dropped from 16.3% p.a. in January to 7.2% p.a. in September. However, high borrower risk estimates, general uncertainty over future economic dynamics and the need for the banks to restructure their balance sheets, and consequently to keep most of their assets as liquid as possible, restrained the interest rate decline and prevented banks from expanding credit.

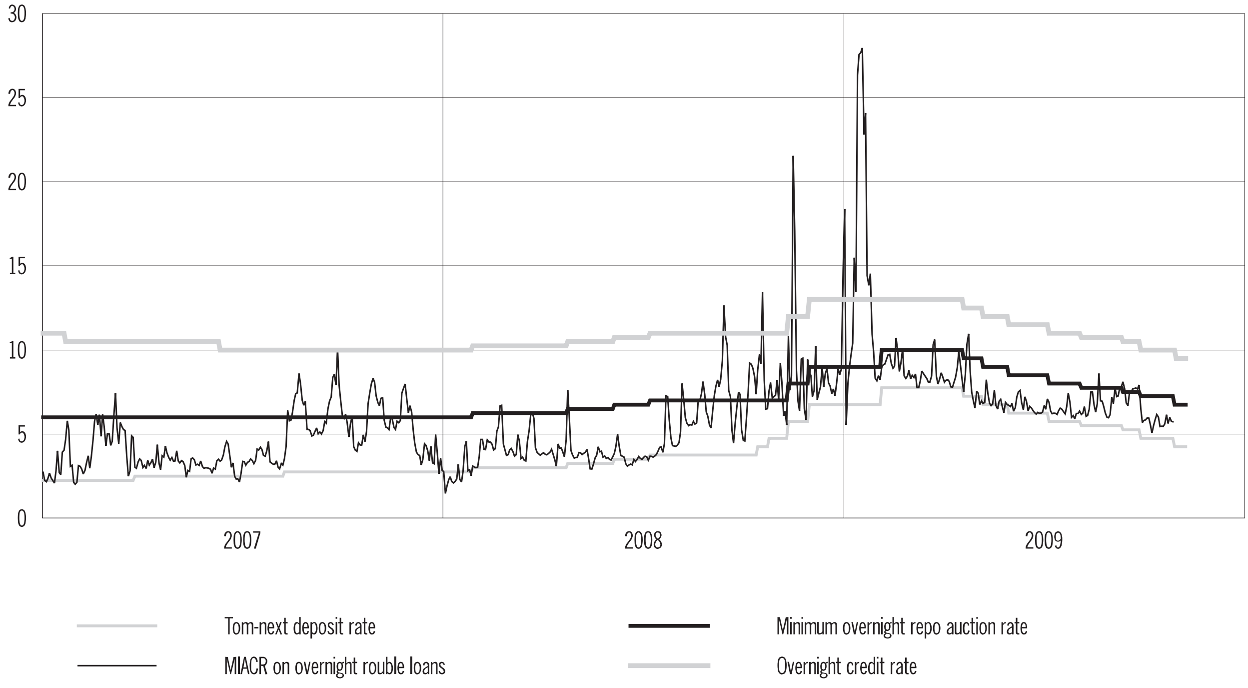
The crisis significantly increased volatility in money demand, chiefly as a result of abrupt changes in economic agents' preferences regarding the denomination of their assets, and changes in economic growth rates and asset price dynamics. Money demand has slowed significantly this year compared with last year, mainly due to the dramatic GDP contraction, the slowing of growth in asset prices, and the rouble devaluation, which continued in January this year and prompted holders of rouble assets to switch to foreign currency.

Bank of Russia estimates show that for 2009 as a whole, the significant slowing of business activity will have a negative impact on growth in money demand. At the same time, the gradual increase in demand for the national currency (as a store of value, among other things) owing to the stabilisation of the rouble's exchange rate, the reduction of devaluation expectations and the change in asset price dynamics, may bring about a moderate rise in money demand this year. According to the updated macroeconomic projections, rouble supply may grow by 8-10% this year.

Overall, in the first nine months of 2009, rouble supply increased by 1.2%. A significant contraction occurred in the monetary aggregate M2 in January (by 11.1% as against 2.7% a year earlier) as a result of growth in demand for foreign currency, which caused a major reduction in monetary authorities' net foreign assets (by 9.8% in dollar terms).

Nevertheless, in February-September the average monthly rate of M2 growth was positive. In April-September, the monetary aggregate M2 expanded by 12.7%, exceeding M2 growth in the same period last year by 5.3 percentage points. On an annualised basis, however, the rates of growth in rouble supply were negative in the first nine months of this year, and as of October 1, 2009, rouble supply contract-

Bank of Russia key interest rates and MIACR
(% per annum)



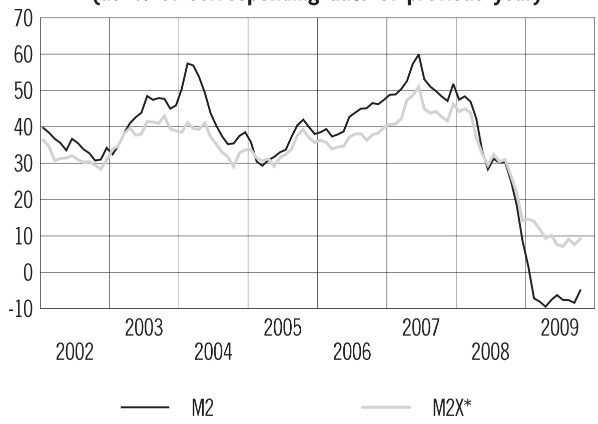
ed by 5.0% compared with the same date of 2008.

Despite the unstable dynamics, the velocity of money calculated by the monetary aggregate M2 declined by an estimated 2.2% in January-September 2009, equal to the decline registered in the same period last year.

Along with the significant GDP contraction, the value of call deposits, which are represented largely by non-financial organisation settlement and current accounts, declined by 0.3% in absolute terms in the first nine months of this year. Non-financial sector and household rouble-denominated time deposits increased by 8.2% over this period as against 18.4% in January-September 2008. The main reason behind these time deposit dynamics was the depreciation of the rouble in late 2008 and early 2009, which caused rouble assets to be converted into foreign currency assets. As the rouble stabilised and then appreciated, and deposit rates climbed, time deposits denominated in the national currency began to grow gradually. However, their monthly rates of growth in the first three quarters of this year, excepting May and September, were lower than in the previous year.

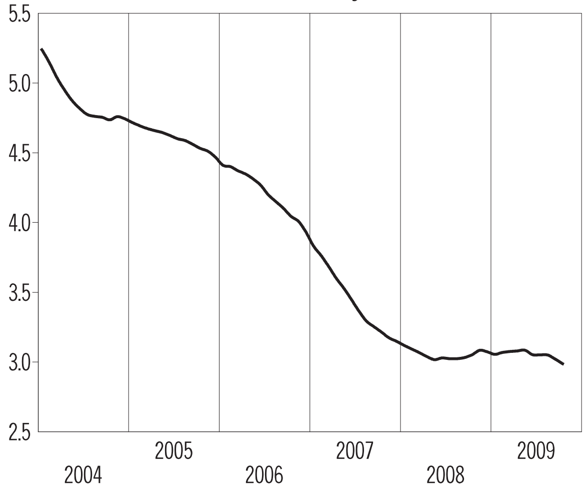
In January 2009, as in the fourth quarter of 2008, net sales of foreign currency to households through banks remained significant. In February-September, they declined as exchange rate dynamics changed. As a result, preliminary balance of payments estimates show that foreign currency sales outside the banking system increased by $600 million in the first nine months of this year, whereas in the same period last year they declined by $1.9 billion.

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



* Broad money.

M2 velocity



Foreign currency deposits followed similar trends. After significant growth in January, the increase in foreign currency deposits slowed each month, except during the summer months. Nevertheless, the share of foreign currency deposits in January-September 2009 was considerably larger than in the same period last year. According to preliminary data, as of October 1, 2009, foreign currency deposits (calculated in rouble terms) accounted for 27.6% of total banking sector deposits (as against 13.9% as of October 1, 2008), and 22.1% of broad money[2] (as against 10.5% as of October 1, 2008).

Broad money expanded by an estimated 4.5% in January-September 2009 (it grew by 9.8% in the same period last year). Annualised growth in broad money stood at 9.1% as of October 1, 2009 (as against 26.5% a year earlier). The principal sources of growth in this monetary aggregate were the expansion of net credit to the federal government, and the increase in monetary authorities' net foreign assets (in February-September these grew by 11.6% in dollar terms).

[2] *Broad money comprises cash issued by the Bank of Russia (excluding cash in the cash departments of the Bank of Russia and credit institutions), funds held by residents (individuals and organisations other than credit institutions) in settlement, current and deposit bank accounts denominated in roubles and foreign currencies, precious metals, and all interest accrued on deposit operations.*

The volume of bank loans contracted significantly in 2009, and as a result, the annual rates of growth in loans to non-financial organisations and households slowed.

According to preliminary data, growth in loans to non-financial organisations in roubles and foreign currency (in rouble terms) in January-September 2009 slowed to 1.6% from 29.1% in the same period last year. The annual rate of growth in this type of debt stood at 5.7% as of October 1, 2009, as against 44.1% a year earlier. Loans extended to households in roubles and foreign currency contracted (in rouble terms) by 9.9%, whereas in January-September 2008 the figure increased by 35.2%. As of October 1, 2009, loans to households declined by 9.9% year on year in absolute terms (a growth of 50.7% was registered as of October 1, 2008).

The significant contraction in the rouble deposit base in early 2009 along with the continued decline in funds raised on international financial markets created a shortage of credit in the Russian banking system. In the meantime, overdue loans to non-financial organisations and households continued to grow, which contributed to the shortage of credit, as the deterioration in the quality of banking sector assets and the financial situation of many borrowers made banks more cautious. In addition, the dynamics of credit aggregates was affected by the fall in demand for loans amid the general decline in business activity and high borrowing costs on the domestic market. In late 2008 and early 2009, realised credit risks in the Russian banking sector and the high cost of funding for credit institutions caused growth in interest rates on loans to non-financial organisations, which the Bank of Russia managed to hold back.

Overdue loans to non-financial organisations and households grew rapidly in the first half of 2009. They increased from 415 billion roubles as of January 1, 2009, to 824 billion roubles as of July 1, 2009. Subsequently their growth slowed down, and a slight fall was registered in September. As of October 1, 2009, the figure stood at 948 billion roubles.

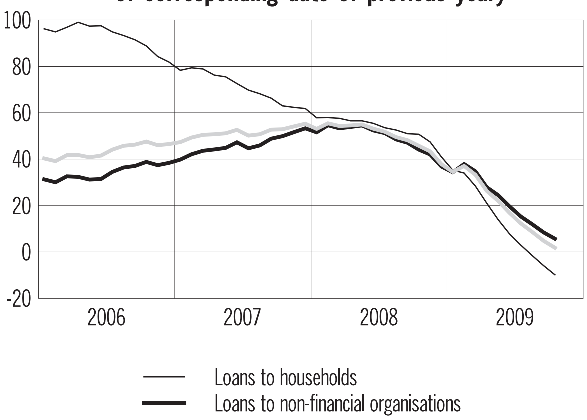
Growth in ‘toxic’ assets forced credit institutions to make substantial loss provisions, which increased from 1,023 billion roubles as of January 1, 2009, to 1,824 billion roubles as of October 1, 2009.

Despite the rapid growth in loss provisions, the banking sector capital adequacy ratio increased from 16.8% as of January 1, 2009, to 20.3% as of October 1, 2009 (the required ratio is 10%).

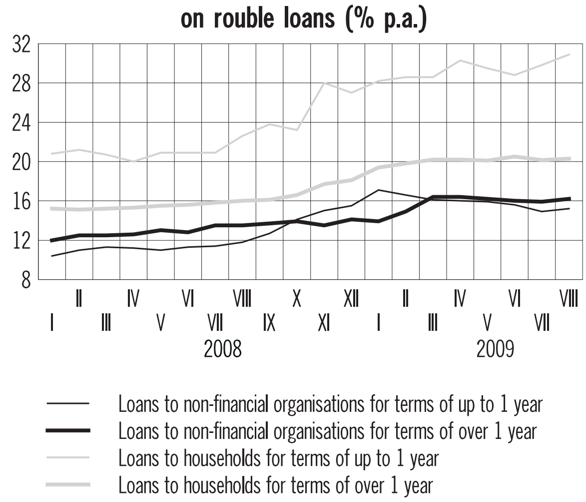
The gradual improvement of the situation came largely as a result of anti-crisis measures taken by the Russian Government and the Bank of Russia. One factor that helped alleviate the ‘toxic’ asset situation was the economic recovery seen in the second half of 2009.

Bad debt remains the most severe problem for the banking sector and the economy as a whole, and the Bank of Russia takes this factor into account in implementing monetary policy.

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



Nominal interest rates on rouble loans (% p.a.)



The dynamics of the broad monetary base,[3] which represents money supply by the monetary authorities, reflected the main changes in the money market situation and monetary policy. In January, the large outflow of private sector capital caused a sharp contraction (by 22.4%) in the monetary base, mainly as a result of the significant reduction in cash (by 14.5%) and balances in credit institutions' correspondent accounts with the Bank of Russia (by more than a half), which exceeded the typical decrease for the first month of the year.

The contraction in the monetary base in January 2009 was connected to growth in economic agents' demand for foreign currency. The Bank of Russia's large-scale currency interventions, conducted in line with the policy of gradually devaluing the rouble, led to a reduction in monetary authorities' international reserves, calculated at the cross rates of foreign currencies against the US dollar, by $40.2 billion, while the total volume of liquidity withdrawn from the market as a result of these interventions was comparable with the overall narrowing of the monetary base. The outflow of liquidity from the banking sector in January was partly offset by the increase in credit institutions' debt on Bank of Russia loans. Bank of Russia gross credit to banks grew by 325.3 billion roubles, or 8.8%, in January.

In February and March, the monetary base remained virtually unchanged at about 4.3 trillion roubles, as market participants' devaluation expectations subsided.

In April-September 2009, as favourable trends in the external economic conditions gathered pace, the exchange rate of the rouble gained strength, and budget policy was eased, the monetary base expanded by 11.7%. Cash within the monetary base increased by 5.8% during this period. Growth in banking sector liquidity in April-September 2009 was also manifest in the 32.8% increase in the volume of credit institutions' deposits with the Bank of Russia.

The principal sources of growth in the monetary base in April-September 2009 were Bank of Russia operations on the domestic foreign exchange market and the expansion of net credit to the federal government. As the flow of foreign currency to the Russian market increased and the exchange rate of the rouble showed an upward trend, the monetary authorities' international reserves, calculated at the cross rates of foreign currencies against the US dollar, grew by $29.6 billion in April-September 2009, while total liquidity entering the banking sector via these operations amounted to 0.8 trillion roubles. There was a comparable increase in net credit to the federal government in this period, resulting from the decision to use the Reserve Fund for covering the budget deficit. Growth in banking sector liquidity was also connected with the resumption in April 2009 of the practice of placing temporarily idle federal budget funds on bank deposits.

Taking into consideration this year's economic trends, the Bank of Russia revised the parameters of the monetary programme for 2009.

The narrow monetary base projection for the end of 2009 has been lowered from 6.1-6.6 trillion roubles to 5.0 trillion roubles, which means that the growth rate of this aggregate over this year is expected at 14%. According to the updated balance of payments forecast, growth in net international reserves in the programme may reach about 0.9 trillion roubles, while net domestic assets will decline by 0.3 trillion roubles. The calculations also took into account the projected financing of the updated 2009 federal budget deficit from the Reserve Fund. Other monetary programme indicators were also revised.

In January 2009, amid liquidity shortages, credit institutions actively participated in Bank of Russia refinancing operations: during this period, the Bank of Russia provided credit institutions with about 820 billion roubles in credit per day, on average. As the domestic foreign exchange market stabilised, banking sector demand for additional liquidity declined: in Febru-

[3] The broad monetary base comprises cash issued by the Bank of Russia (including balances in the cash departments of credit institutions), funds in the required reserve accounts deposited by credit institutions with the Bank of Russia, credit institutions' rouble correspondent accounts (including the averaged balances of the required reserves), along with deposit accounts with the Bank of Russia, credit institutions' investments in Bank of Russia bonds (at market value), and other Bank of Russia obligations on operations conducted with credit institutions in the national currency.

Estimated monetary programme indicators for 2009 (billion roubles)*

	1.01.09	1.10.09	1.01.10	2009 growth
	fact	fact	projection	
Narrow monetary base	**4,392**	**3,955**	**5,008**	**616**
– cash in circulation (outside the Bank of Russia)	4,372	3,869	4,909	537
– required reserves	20	85	99	79
Net international reserves	**11,199**	**11,275**	**12,095**	**895**
– billion US dollars	381	384	411	30
Net domestic assets	**-6,807**	**-7,320**	**-7,086**	**-280**
Net credit to general government	-7,152	-5,872	-4,867	2,286
– net credit to federal government	-6,343	-4,744	-4,047	2,297
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-809	-1,128	-820	-11
Net credit to banks	2,515	1,024	159	-2,355
– gross credit to banks	3,692	1,805	1,355	-2,337
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb banking sector excess liquidity	-1,177	-780	-1,195	-19
Other net unclassified assets	-2,170	-2,473	-2,379	-210

** Programme indicators calculated at the fixed exchange rate are based on the official exchange rate of the rouble as of the beginning of 2009.*

ary and March the average daily volume of liquidity injection operations conducted by the Bank of Russia contracted to 430 billion roubles, and in April-September decreased to 81.9 billion roubles.

Debt on Bank of Russia loans declined in April-September 2009: gross credit to the banking sector contracted by 1.7 trillion roubles, or 48.4%. The most significant decline was registered in banking sector debt on unsecured loans (by a factor of 5.2), of which a part was repaid ahead of schedule.

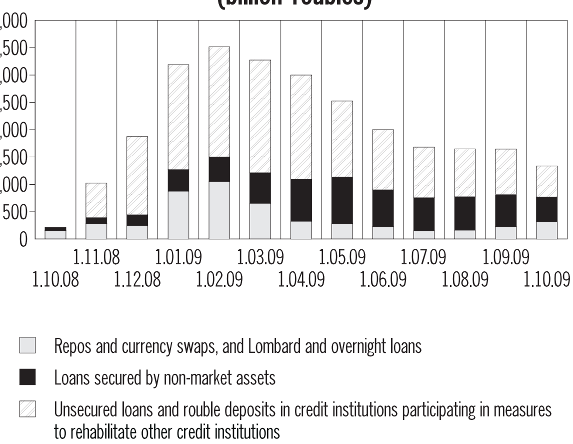
One of the major market refinancing instruments in 2009 continued to be Bank of Russia repo operations. Over the first nine months of 2009, the volume of these operations reached 25.1 trillion roubles, as against 8.4 trillion roubles in the same period last year. The average daily volume of Bank of Russia repo transactions stood at 136.3 billion roubles in this period. In January a record high of almost 763 billion roubles was registered.

The potential impact of the use of this instrument increased when the Bank of Russia began to conduct repo operations on the MICEX Stock Exchange and extended its Lombard List. The resumption of 90-day repos and the launch of 6- and 12-month operations represented another significant step forward.

The volume of unsecured loans extended for terms of 5 weeks to 1 year totalled 3.1 trillion roubles in January-September 2009. The first one-year credit auction was held on June 8, when almost 48 billion roubles were lent. Banking sector debt on these operations amounted to 0.3 trillion roubles as of October 1, 2009.

Bank of Russia loans extended against the collateral of non-market assets (promissory notes and claims under corporate credit agreements) and bank guarantees totalled 1.8 trillion roubles in the first nine months of 2009, of

Structure of Bank of Russia gross credit to credit institutions excluding subordinated loans to Sberbank (billion roubles)



Bank of Russia interest rates in 2009 (% p.a.)

Type of instrument	Purpose	Instrument	Maturity	Prior to 2.02	Interest rate change from:										
					2.02	10.02	24.04	14.05	5.06	13.07	10.08	15.09	30.09	30.10
Open market operations	Providing liquidity	Lombard auctions	14 days	9.50	9.50	10.50	10.00	9.50	9.00	8.50	8.25	8.00	7.25	6.75
			3 months	10.50	10.50	11.50	11.00	10.75	10.25	9.75	9.50	9.25	8.75	8.25
			6 months	11.25	11.25	12.25	11.75	11.25	10.75	10.25	10.00	9.75	9.25	8.75
			12 months	11.75	11.75	12.75	12.25	11.75	11.25	10.75	10.50	10.25	9.75	9.25
		Auction-based (exchange and over-the-counter) repo*	1 day	9.00	9.00	10.00	9.50	9.00	8.50	8.00	7.75	7.50	7.25	6.75
			7 days	9.50	9.50	10.50	10.00	9.50	9.00	8.50	8.25	8.00	7.25	6.75
			90 days	10.50	10.50	11.50	11.00	10.75	10.25	9.75	9.50	9.25	8.75	8.25
			6 months	11.25	11.25	12.25	11.75	11.25	10.75	10.25	10.00	9.75	9.25	8.75
			12 months	11.75	11.75	12.75	12.25	11.75	11.25	10.75	10.50	10.25	9.75	9.25
		Unsecured loans*	1 week	11.25	11.25	12.25	11.75	11.50	11.00	10.50	10.25	10.00	10.00	10.00
			5 weeks	11.50	11.50	12.50	12.00	11.75	11.25	10.75	10.50	10.25	10.25	10.25
			3 months	11.75	11.75	12.75	12.25	12.00	11.50	11.00	10.75	10.50	10.50	10.50
			6 months	12.00	12.00	13.00	12.50	12.25	11.75	11.25	11.00	10.75	10.75	10.75
			12 months	–	–	–	–	12.75	12.25	11.75	11.50	11.25	11.25	11.25
	Absorbing liquidity	Deposit auctions	4 weeks	9.00	9.00	10.00	9.50	9.00	8.50	8.00	7.75	7.50	7.00	6.50
			3 months	10.00	10.00	11.00	10.50	10.00	9.50	9.00	8.75	8.50	8.00	7.50
Standing facilities	Providing liquidity	Overnight loans	1 day	13.00	13.00	13.00	12.50	12.00	11.50	11.00	10.75	10.50	10.00	9.50
		Lombard loans	1 day	10.00	11.00	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
			7 days**	–	–	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
			30 days	10.25	11.00	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
		Repo	1 day	10.00	11.00	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
			7 days	10.00	11.00	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
			12 months	–	–	–	–	–	11.25	10.75	10.50	10.25	9.75	9.25
		Currency swap	1 day	13.00	13.00	13.00	12.50	12.00	11.50	11.00	10.75	10.50	10.00	9.50
		Loans extended against collateral of non-market assets or guarantees	Up to 90 days	11.00	11.25	12.00	11.50	11.00	10.50	10.00	9.75	9.50	9.00	8.50
			From 91 to 180 days	12.00	12.00	12.50	12.00	11.50	11.00	10.50	10.25	10.00	9.50	9.00
			From 181 to 365 days	13.00	13.00	13.00	12.50	12.00	11.50	11.00	10.75	10.50	10.00	9.50
	Absorbing liquidity	Deposit operations	Tom-next, spot-next and call	6.75	6.75	7.75	7.25	6.75	6.25	5.75	5.50	5.25	4.75	4.25
			1 week, spot-week	7.25	7.25	8.25	7.75	7.25	6.75	6.25	6.00	5.75	5.25	4.75
For the record:														
Refinancing rate				13.00	13.00	13.00	12.50	12.00	11.50	11.00	10.75	10.50	10.00	9.50

** The Bank of Russia sets on a daily basis a minimum rate at a level not lower than minimum interest rates set for indicated operations by the Bank of Russia Board of Directors.*

*** Before February 10, 2009, at the average weighted 14-day Lombard auction rate.*

which 580 billion roubles were provided as loans secured by guarantees.

The Bank of Russia also extended overnight loans to credit institutions to enable them to conclude daily operations: the volume of these transactions totalled 241 billion roubles in January-September 2009.

Demand for Lombard loans increased significantly. Over the first nine months of this year, more than 251 billion roubles were provided to credit institutions in Lombard loans. This figure is 4.4 times higher than in the same period last year. It should be noted that of total Lombard loans, 49.6% were loans extended at a fixed interest rate for a term of 1 to 30 calendar days. Of these, more than 16.5 billion roubles were provided through the MICEX electronic trading system. The volume of Lombard loans extended on an auction basis over the first nine months of 2009 reached 127 billion roubles, as against 4.4 billion roubles in the same period last year.

In 2009, the Bank of Russia continued to broaden the range of assets that banks could use as collateral when being refinanced by the Bank of Russia. In the first quarter, the Bank of Russia added to its Lombard List mortgage-backed bonds secured by a joint guarantee from the Housing Mortgage Lending Agency, and bonds issued by systemically important organisations that were determined by a government commission created by Russian Federation Government Resolution No. 957 of December 15, 2008. These are organisations listed on at least one Russian stock exchange, regardless of whether they have an international rating.

Bank of Russia currency swaps totalled 0.5 trillion roubles in the first nine months of this year.

The volume of intraday loans extended by the Bank of Russia for the purpose of ensuring the uninterrupted functioning of the payment system underwent a major increase. In January-September 2009, they grew to 16.6 trillion roubles, up 40.7% on the same period last year.

To regulate banking sector liquidity, the Bank of Russia conducted deposit operations with resident credit institutions in roubles at fixed interest rates on standard tom-next, spot-next, call, one-week and spot-week terms and at interest rates set at the auctions of four-week and three-month deposits. The total volume of deposit transactions conducted by the Bank of Russia in January-September 2009 reached 13.6 trillion roubles, as against 2.5 trillion roubles in the same period a year earlier.

The Bank of Russia used its bonds (OBR) as an additional instrument to regulate banking sector liquidity, but the scale of these operations was limited by low activity among the participants, and inadequate liquidity in this segment of the market.

During 2009, the Bank of Russia used the reserve requirements as an instrument of direct liquidity regulation.

In January it postponed the previously established deadlines for raising the required reserve ratios from February 1 and March 1, 2009, to May 1 and June 1, 2009, respectively, and in April it passed a decision to restructure the increase in the required reserve ratios into four stages rather than two stages, as it had intended to do previously (by half a percentage point at each stage). The following required ratios were established for each category of obligations: 1.0% from May 1, 1.5% from June 1, 2.0% from July 1, and 2.5% from August 1, 2009.

The new Bank of Russia Regulation on Required Reserves of Credit Institutions, which came into force on November 1, 2009, specified the categories of obligations for which reserves must be made to enable the Bank of Russia to establish differentiated required reserve ratios, where necessary.

In September, the Bank of Russia passed a decision to keep the effective 2.5% required reserve ratio unchanged for each category of obligations.

In addition, it permitted credit institutions until March 1, 2010, to average the required reserves, i.e. to keep a part of the required reserves in correspondent accounts (sub-accounts) with the Bank of Russia, regardless of the category assigned to them as a result of the evaluation of their economic standing, under relevant Bank of Russia regulations.

To maintain liquidity among credit institutions carrying out bankruptcy prevention measures with the participation of the Deposit Insurance Agency, a state corporation hereinafter referred to as 'the Agency,' the Bank of Russia granted them the right, when calculating required reserves that must be deposited with the Bank of Russia, not to include in these reserves obligations to the Agency and (or) obligations to investors other than credit institutions arising in the course of providing financial aid under the plans for the Agency's participation in bankruptcy prevention, pursuant to the Federal Law on Additional Measures to Strengthen Banking System Stability in the Period until December 31, 2011.

The required reserve averaging ratio, set by the Bank of Russia at 0.6, allows credit institutions to keep in correspondent accounts (sub-accounts) and use in settlements 60% of the total value of required reserves that must be deposited with the Bank of Russia.

The average value of the required reserves increased from 37.0 billion roubles in January to 199.9 billion roubles in September, 2009. The share of credit institutions that used their right to average the required reserves also rose gradually, in September reaching 75.2% of credit institutions operating in almost all regions.

In addition, to ensure the more effective use of the reserve averaging mechanism, in August the Bank of Russia passed a decision to postpone the required reserve regulation times, starting from the reserve regulation for November, and move the beginning and end of the required reserve averaging period – i.e. the period for keeping required reserves in correspondent accounts – so that the end of the averaging period did not overlap with the time when credit institutions were in most need of liquidity to pay taxes to the budget.

III. Macroeconomic development scenarios for 2010 and for the period of 2011 and 2012 and balance of payments forecast

The external conditions for the development of the Russian economy are expected to improve in 2010, following their sharp deterioration in 2009. International organisations predict a gradual resumption of growth in the global economy. According to the IMF's October 2009 forecast, global output of goods and services will increase by 3.1% in 2010, whereas in 2009 it declines by 1.1%. However, the possibility of slower growth in world GDP is not ruled out. Global economic growth rates are expected to accelerate in 2011 and 2012. The global economic revival will facilitate a recovery of domestic production and growth in exports. As inflation in countries trading with Russia is forecast at a relatively low level in 2010, it will not create an additional risk of accelerated price growth in the country.

Interest rates remain low on world financial markets. However, the IMF and World Bank predict a slight rise in short-term interest rates in the United States and eurozone. The expected differences between interest rates in Russia and other countries do not preclude an inflow of capital to the Russian economy. However, the risk of capital outflow remains high.

The price of oil on world energy markets is a major factor for the state of the Russian economy. With this in view, the Bank of Russia has considered four monetary policy scenarios for 2010-2012, two of which coincide with the government's forecasts.

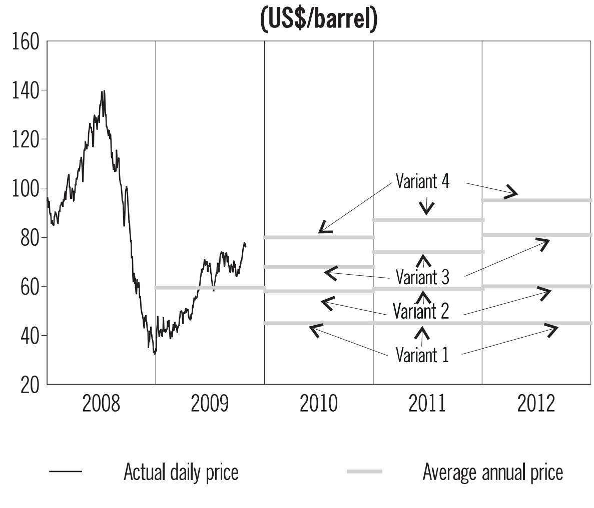
According to the **first scenario**, which the Bank of Russia has considered in addition to the government's forecasts, the average annual price of Russian oil on the world market is to fall to $45 per barrel in 2010. In this case, real disposable money income may drop by 0.6%, and fixed capital investment by 2.5%. GDP is to grow by 0.2%.

The **second scenario** is the forecast on which the draft federal budget is based. According to this scenario, the price of Russian oil may stand at $58 per barrel in 2010.

This scenario envisages an economic recovery owing to the implementation of investment programmes by natural monopolies, and government support for the priority social and economic development projects. Real disposable money income may rise by 0.4%, and fixed capital investment by 1.0%. Economic growth may stand at 1.6%.

According to the **third scenario**, the price of Russian oil may reach $68 per barrel. In this

Price of Urals crude (US$/barrel)



Russian balance of payments forecast for 2010-2012 (US$, billion)

	2009 (estimate)	2010				2011				2012			
	$59.5 per barrel	Variant 1 ($45 per barrel)	Variant 2 ($58 per barrel)	Variant 3 ($68 per barrel)	Variant 4 ($80 per barrel)	Variant 1 ($45 per barrel)	Variant 2 ($59 per barrel)	Variant 3 ($74 per barrel)	Variant 4 ($87 per barrel)	Variant 1 ($45 per barrel)	Variant 2 ($60 per barrel)	Variant 3 ($81 per barrel)	Variant 4 ($95 per barrel)
Current account	**34.2**	**21.6**	**40.1**	**58.7**	**84.2**	**13.8**	**26.6**	**51.3**	**83.9**	**1.8**	**16.9**	**48.0**	**83.2**
Balance of goods and services	71.8	53.0	77.2	98.3	128.5	46.4	67.4	95.5	131.6	35.6	57.9	92.8	131.8
Exports of goods and services	*332.9*	*305.9*	*348.5*	*384.0*	*425.5*	*308.5*	*359.6*	*418.3*	*470.3*	*313.8*	*374.2*	*461.0*	*524.5*
Imports of goods and services	*-261.1*	*-252.9*	*-271.3*	*-285.7*	*-297.0*	*-262.0*	*-292.3*	*-322.8*	*-338.7*	*-278.1*	*-316.3*	*-368.2*	*-392.7*
Balance of income and current transfers	-37.6	-31.4	-37.1	-39.6	-44.3	-32.6	-40.8	-44.2	-47.7	-33.8	-41.1	-44.7	-48.6
Capital and financial account	**-32.0**	**-29.6**	**-24.6**	**-19.6**	**-14.5**	**-10.0**	**-5.0**	**-0.1**	**5.0**	**8.4**	**13.4**	**18.4**	**23.5**
Financial account (net of reserves)	**-32.6**	**-29.9**	**-24.9**	**-19.9**	**-14.8**	**-10.3**	**-5.3**	**-0.4**	**4.7**	**8.1**	**13.1**	**18.1**	**23.2**
General government and monetary authorities	*7.3*	*-4.9*	*-4.9*	*-4.9*	*-4.9*	*-5.3*	*-5.3*	*-5.3*	*-5.3*	*-1.9*	*-1.9*	*-1.9*	*-1.9*
Private sector (including net errors and omissions)	*-40.0*	*-25.0*	*-20.0*	*-15.0*	*-10.0*	*-5.0*	*0.0*	*5.0*	*10.0*	*10.0*	*15.0*	*20.0*	*25.0*
Change in foreign exchange reserves ("+" signifies decrease, "-" signifies growth)	**-2.2**	**8.0**	**-15.5**	**-39.2**	**-69.7**	**-3.7**	**-21.6**	**-51.2**	**-88.9**	**-10.2**	**-30.3**	**-66.5**	**-106.7**

case, real disposable money income may increase by 1.4%, and fixed capital investment by 4.5%. GDP may expand by 3.0%.

The Bank of Russia does not rule out more significant growth in oil prices on the world market. According to the **fourth scenario**, the price of Russian oil may rise to $80 per barrel in 2010. Key economic growth indicators may be more favourable than under the third scenario, as the external conditions improve considerably. Real disposable money income may rise by 2.4%, and fixed capital investment by 8.0%. GDP growth in this case may reach 4.4%.

In the first scenario, which envisages a deterioration in the energy market situation, exports of goods and services may decline to $305.9 billion in 2010, while the trade surplus may contract to $53.0 billion.

The second and third scenarios envisage that exports of goods and services will increase to $348.5-384.0 billion, and that trade surplus in this case will stand at $77.2-98.3 billion in 2010. In the scenario envisaging a more favourable raw material market situation (the fourth scenario), exports of goods and services are expected at $425.5 billion, and the trade surplus will reach $128.5 billion.

The deficit in the balance of income and current transfers is expected to be within the $31.4-44.3-billion range in 2010.

The deficit of the capital and financial account is expected to contract in 2010 under all four scenarios. According to the fourth scenario, it will stand at $14.5 billion, a decrease by a factor of 2.2 from 2009. All scenarios except the first envisage more significant growth in the economy's external obligations than in 2009. Against the background of more moderate growth in foreign assets, this will cause net private capital outflow to decrease to $25-$10 billion, depending on the scenario.

The current account surplus under the first scenario will be not sufficient to compensate for the financial account deficit, and as a result, demand for foreign currency will outstrip supply, forcing the Bank of Russia to intervene in the exchange rate dynamics. Foreign exchange reserves may contract by $8.0 billion in this case. Given the more favourable development of the global markets in the second, third, and fourth scenarios, foreign exchange reserves may increase by $15.5-69.7 billion.

The balance of payments forecast for the period until 2012 envisages that the average annual price of Urals crude may vary over a wide range: from $45 to $87 per barrel in 2011, and from $45 to $95 per barrel in 2012.

All scenarios envisage a current account surplus in 2011 and 2012. In the first scenario, which envisages low oil prices in 2012, the surplus will stand at $1.8 billion. According to the second scenario, the current account surplus may reach $16.9 billion. Under the third and fourth scenarios, which envisage moderate growth in the deficit of the balance of income and current transfers in 2012, the current account surplus may range between $48.0 billion and $83.2 billion.

The financial account deficit under the first three scenarios in 2011 will contract significantly, compared with 2010, and the fourth scenario envisages a financial account surplus. As banks step up activity in raising funds in 2012, the financial account balance will remain positive.

The first scenario envisages a slight increase in foreign exchange reserves (by $3.7 billion) in 2011. According to the second and third scenarios, the current account surplus will greatly exceed the financial account deficit, and as a result, foreign exchange reserves will grow by $21.6-51.2 billion. Under the fourth scenario, the current account and financial account surpluses will ensure an 88.9-billion-dollar increase in foreign exchange reserves. In 2012, the cumulative effect of the current account and financial account surpluses will create a sustained excess of supply of foreign currency over demand, and consequently, foreign exchange reserves will increase by $10.2-106.7 billion.

GDP may grow by 2.4-5.5% in 2011 and 2012, depending on the scenario.

IV. Monetary policy targets and instruments in 2010 and in the period of 2011 and 2012

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

In line with their economic development scenarios and key social and economic development projections for 2010, and for the planning period of 2011 and 2012, the Russian Government and the Bank of Russia have set a goal of reducing inflation to 9-10% in 2010, 7-8% in 2011, and 5-7% in 2012 (on a December-on-December basis). Core inflation of 8.5-9.5% in 2010, 6.5-7.5% in 2011, and 4.5-6.5% in 2012 corresponds to the target set for headline inflation on the consumer market.

The social and economic development forecast on which the draft federal budget is based envisages a recovery of positive rates of economic growth in 2010. The economic recovery and resumption of growth in asset prices are expected to bring about an increase in the transactional component of money demand. The decline of inflation and devaluation expectations will also stimulate growth in demand for the national currency as a store of value. Therefore, the increase in the monetary aggregate M2 may be in the range of between 8% and 18%, depending on the development scenario.

The expected gradual improvement of the macroeconomic situation would stabilise growth in money demand in 2011 and 2012. M2 growth rates may vary between 10% and 20%, and between 12% and 21%, respectively, depending on the economic development scenario.

The monetary programme for 2010-2012 has been drawn up in four versions, corresponding to the social and economic development scenarios for 2010-2012.

The monetary programme has been calculated on the basis of money demand indicators corresponding to the inflation targets, GDP and GDP component projections, and the exchange rate dynamics included in the balance of payments forecast. Depending on economic development scenarios, the narrow monetary base may expand by 8-17% in 2010, 11-19% in 2011, and 13-19% in 2012.

In the first variant of the monetary programme, growth in net domestic assets (NDA) is the main source of growth in the monetary base throughout the forecast period. The second, third and fourth variants of the monetary programme are based on the assumption that net international reserves (NIR) will increase in 2010-1012, and become the principal source of growth in the monetary base.

The **first variant** of the monetary programme for 2010 envisages a contraction in net international reserves by 0.2 trillion roubles and an increase in NDA by 0.7 trillion roubles. Net credit to the general government may expand by 2.3 trillion roubles under this variant of the programme, while net credit to banks will decline by 1.2 trillion roubles.

Taking into consideration the balance of payments forecast, this variant envisages that NIR may increase by 0.1 trillion roubles in 2011, and by 0.3 trillion roubles in 2012. Meanwhile, net domestic assets grow by 0.5 trillion roubles a year. In 2011 and 2012, net credit to the general government should increase by about 0.6 trillion roubles, amid slight growth in net credit to banks to sustain this trend.

The **second variant** of the programme, whose parameters match the draft federal budget for the corresponding period, envisages an increase of 0.5 trillion roubles in NIR in 2010. Taking into account the monetary base projection, this will require an increase of 0.2 trillion roubles in NDA. Net credit to the general government in NDA is expected to expand by 1.8 trillion roubles, whereas net credit to banks will contract by 1.3 trillion roubles.

According to this scenario, NIR will increase by 0.6 trillion roubles in 2011, a level of growth that would require a 0.2-trillion-rouble increase in net domestic assets. Taking into consideration that net credit to the general government may increase by 0.8 trillion roubles, net credit to banks may fall by 0.3 trillion roubles. In 2012, the expansion of the monetary base would be ensured by NIR growth of 0.9 trillion roubles and NDA growth of 0.2 trillion roubles. As for the structure of growth in net domestic assets, net credit to the general government and net credit to banks are expected to change by almost as much as in 2011.

In the third and fourth variants of the monetary programme, the projected increase in NIR in 2010-2012 would exceed the level of growth required for an expansion of the monetary base, and this would predetermine an absolute contraction in net domestic assets.

According to the **third variant,** NIR will grow by 1.2 trillion roubles in 2010, whereas NDA will contract by 0.4 trillion roubles. In this case, net credit to the general government will expand by 1.5 trillion roubles, whereas net credit to banks is to decline by 1.7 trillion roubles. In

Monetary programme projections for 2010-2012 (billion roubles)*

	1.01.2010 (estimate)	2010				2011				2012			
	$59.5 per barrel	Variant 1 ($45 per barrel)	Variant 2 ($58 per barrel)	Variant 3 ($68 per barrel)	Variant 4 ($80 per barrel)	Variant 1 ($45 per barrel)	Variant 2 ($59 per barrel)	Variant 3 ($74 per barrel)	Variant 4 ($87 per barrel)	Variant 1 ($45 per barrel)	Variant 2 ($60 per barrel)	Variant 3 ($81 per barrel)	Variant 4 ($95 per barrel)
Monetary base (narrow definition)	**5,008**	**5,428**	**5,710**	**5,789**	**5,858**	**6,002**	**6,566**	**6,790**	**6,973**	**6,780**	**7,617**	**7,929**	**8,305**
– cash in circulation (outside the Bank of Russia)	4,909	5,321	5,597	5,674	5,741	5,885	6,436	6,654	6,831	6,649	7,466	7,766	8,133
– required reserves	99	107	113	115	117	117	130	136	141	131	151	163	172
Net international reserves	**12,095**	**11,858**	**12,549**	**13,246**	**14,142**	**11,968**	**13,185**	**14,752**	**16,756**	**12,268**	**14,074**	**16,706**	**19,891**
– billion US dollars	411	403	427	451	481	407	449	502	570	417	479	568	677
Net domestic assets	**-7,086**	**-6,430**	**-6,840**	**-7,457**	**-8,284**	**-5,966**	**-6,619**	**-7,962**	**-9,784**	**-5,488**	**-6,458**	**-8,777**	**-11,586**
Net credit to general government	-4,867	-2,593	-3,104	-3,359	-4,011	-1,947	-2,345	-3,353	-4,789	-1,309	-1,615	-3,370	-5,443
– net credit to federal government	-4,047	-1,723	-2,184	-2,439	-3,091	-1,027	-1,375	-2,383	-3,819	-339	-595	-2,350	-4,423
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-820	-870	-920	-920	-920	-920	-970	-970	-970	-970	-1,020	-1,020	-1,020
Net credit to banks	159	-1,088	-1,100	-1,555	-1,746	-1,025	-1,431	-1,816	-2,154	-976	-1,827	-2,053	-2,454
– gross credit to banks	1,355	1,022	952	924	829	951	905	878	788	861	830	800	750
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb banking sector excess liquidity	-1,195	-2,110	-2,051	-2,478	-2,575	-1,976	-2,336	-2,694	-2,942	-1,836	-2,657	-2,853	-3,204
Other net unclassified assets	-2,379	-2,749	-2,636	-2,543	-2,527	-2,994	-2,843	-2,793	-2,840	-3,204	-3,016	-3,354	-3,689

** Programme indicators calculated at a fixed exchange rate are based on the official exchange rate of the rouble as of the beginning of 2009.*

2011 and 2012, this variant of the programme envisages that NIR will increase by 1.5 trillion roubles and 2.0 trillion roubles, respectively, whereas NDA will contract by 0.5 trillion roubles and 0.8 trillion roubles, respectively. Taking into account the parameters corresponding to this variant, net credit to the general government will remain virtually unchanged in 2011 and 2012. For the forecast dynamics to materialise, net credit to banks would have to contract by about 0.3 trillion roubles in 2011 and by 0.2 trillion roubles in 2012.

The **fourth variant** of the programme envisages an increase of almost 2 trillion roubles in NIR in 2010, and a contraction of 1.2 trillion roubles in NDA. Meanwhile, net credit to the general government will expand by 0.9 trillion roubles, while net credit to banks will decline by 1.9 trillion roubles. Growth in NIR in 2011 and 2012 will stand at 2.6 trillion roubles and 3.1 trillion roubles, respectively, causing NDA to decline by 1.5 trillion roubles and 1.8 trillion roubles, respectively. The conditions for this variant envisage significant growth in budget revenue, compared with the other programme variants. Therefore, net credit to the general government will contract by 0.8 trillion roubles in 2011, and by 0.7 trillion roubles in 2012. Net credit to banks will decrease by 0.4 trillion roubles in 2011 and 0.3 trillion roubles in 2012.

The monetary programme parameters are not rigid, and may be revised as the macroeconomic situation changes under the impact of major internal and external factors on monetary developments. To be able to respond effectively to changes in the monetary situation and to identify possible risks in implementing monetary policy, the Bank of Russia will use the entire range of instruments at its disposal.

IV.2. Exchange rate policy

The exchange rate policy to be pursued by the Bank of Russia in 2010-2012 will aim to cushion sharp fluctuations of the rouble exchange rate against the major world currencies. The Bank of Russia will seek in this period to create conditions for the implementation of the monetary policy model based on inflation targeting by gradually scaling down its interventions in the rate-setting process. The parameters of rate-setting policy during the transition to the new monetary policy model will be determined taking into account the need to curb inflation and facilitate the diversification of the economy.

As the Bank of Russia scales down its interventions in the rate-setting process on the domestic foreign exchange market, it will become increasingly important to ensure that market participants manage foreign exchange risk effectively. This problem will be overcome by facilitating the development of foreign exchange risk management mechanisms and regulating credit institutions' activities.

The Bank of Russia will continue to use the euro-dollar basket as an operational benchmark for its exchange rate policy at the stage of transition to the floating exchange rate regime. At the same time, it will preserve the existing mechanism used to control exchange rate volatility, by automatically changing the limits of the floating range of fluctuations in the value of the bi-currency basket, depending on the scale of Bank of Russia interventions.

During the transition period, this approach will make it possible to gradually increase the extent of the rouble's dependence on the changing market situation, and will allow market participants to adapt to the floating exchange rate.

Throughout the transition period, the Bank of Russia will intervene on the domestic foreign exchange market on the limits of and inside the floating band of the bi-currency basket. The direction and volume of interventions inside the floating band of the bi-currency basket will be determined taking into consideration balance of payments factors, budget policy, and the situation on the domestic and foreign financial markets. This mechanism is designed to mitigate the impact of external shocks and balance of payments distortions on the rouble's exchange rate.

Long-term trends in exchange rate dynamics will therefore be determined by balance of foreign trade operations, and the dynamics of the cross-border capital flows. In the medium-term, the situation on world energy markets will continue to play a major role, as energy products remain Russia's principal exports, and changes in this situation will continue to determine the level of foreign currency receipts from exports, and foreign investors' expectations. At the same time, the high volatility of capital flows and their dependence on foreign financial markets will create uncertainty over the exchange rate dynamics. In this situation, the trend towards growth in foreign exchange risk will increase the effectiveness of the Bank of Russia's interest rate policy and its contribution to attaining monetary policy targets.

IV.3. Monetary policy instruments and their application

In the medium term, the Bank of Russia's set of monetary policy instruments will be used to create the necessary conditions for an effective interest rate policy.

As inflation and inflationary expectations decline, the Bank of Russia will continue to cut the refinancing rate, along with interest rates on liquidity injection and absorption operations. Its further steps to reduce (change) interest rates will depend on inflationary trends, production and business activity dynamics, and the state of the financial markets.

If a shortage of banking sector liquidity occurs, the Bank of Russia will continue to use the entire range of refinancing instruments, providing liquidity against collateral (for the most part, auction-based and fixed-rate repos) and providing unsecured loans, which the Bank of Russia introduced as part of anti-crisis measures in October 2008. The expansion of the range of refinancing terms (from one day to one year) will allow the Bank of Russia to manage current liquidity more flexibly, stimulate lending activity in the banking sector, and facilitate the establishment of long-term interest rates on the money market.

However, in the medium term the Bank of Russia's policy will be aimed at further improving the potential of collateralised refinancing instruments in ensuring the transition to refinancing of credit institutions using a single security pool. The Bank of Russia will continue to take efforts to make refinancing (lending) instruments more accessible for credit institutions, in particular by extending the list of assets used as security.

In the event of a money supply excess, the Bank of Russia will sterilise it by selling its own bonds (OBR) and government bonds from its own portfolio. It will also continue to conduct deposit operations to absorb excess liquidity in the short term, using market instruments such as deposit auctions, and standing facilities such as fixed-rate deposit operations.

The Bank of Russia will continue in 2010-2012 to collaborate with the government in stimulating the development of the financial market and implementing exchange rate policy. Specifically, the practice of depositing temporarily idle budget funds with credit institutions, introduced by the Ministry of Finance and the Bank of Russia in 2008, may be used as an additional channel of providing liquidity. However, this instrument's potential is limited significantly by the federal budget parameters.

In addition, the Bank of Russia will cooperate with the Ministry of Finance in formulating measures to improve the government bond market and thereby enhance the effectiveness of government securities trading conducted by the Bank of Russia to regulate money supply.

In 2010 and the period of 2011 and 2012, the Bank of Russia will continue to use the reserve requirements as a means of regulating banking sector liquidity.

Taking into consideration the macroeconomic situation, the resource base of Russian credit institutions, and other factors, the Bank of Russia may change the required reserve ratios and differentiate them. However, it does not rule out the possibility of further raising the required reserve averaging ratio, which makes it possible to restore liquidity of credit institutions if they comply with reserve requirements.

V. Addendum

V.1. Measures to be implemented by the Bank of Russia to upgrade the banking system and banking supervision in 2010 and in the period of 2011 and 2012

Acting in pursuance of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia's activities in 2010-2012 will be aimed at maintaining banking sector stability and protecting the interests of depositors and creditors. The principal instrument to be used in the field of banking regulation and supervision will be risk-based supervision, including monitoring of systemic risks. This work will be carried out in compliance with the obligations assumed by Russia at the highest level to implement the decisions of the Group of 20.

In the course of developing risk-based supervision, the Bank of Russia will fulfil the following tasks:

– further develop substantive approaches to organising supervision, including supervision on a consolidated basis, for the purpose of improving the quality of supervisory assessment of the economic standing of banks, detecting problems at early stages, and taking timely and effective corrective action;

– improve methodologies for supervising credit risk, including asset assessment methodologies;

– upgrade liquidity risk monitoring methodologies aimed primarily at assessing liquidity risk management systems in credit institutions and the level and nature of liquidity risk in the Russian banking sector;

– upgrade methodologies for regulating and managing risks involved in the use by credit institutions of advanced information systems, including online banking, to prevent damage to the interests of their customers and the involvement of credit institutions in illegal activities;

– further improve the standard of reports compiled and presented by credit institutions, including reporting on a consolidated basis, for the purpose of obtaining full information on the nature and level of risks taken and risk management procedures, making it possible to continually monitor the principal types of risk (credit, liquidity, sovereign, operational and other risks);

– specify the powers of the Bank of Russia in the course of supervising credit institutions on a consolidated basis, and the requirements for credit institutions, banking groups and bank holdings to disclose information on their activities, taking into consideration internationally accepted standards.

The Bank of Russia will continue to implement the approaches described in the Basel Committee's *International Convergence of Capital Measurement and Capital Standards. A Revised Framework (Basel II)*.

In line with international practice, the Bank of Russia intends to consider approaches to countercyclical regulation with a view to introducing some of its elements. Specifically, the Bank of Russia may consider the possibility of allowing credit institutions to practice dynamic provisioning.[1] Banks will make these provisions during periods of economic growth to create a 'safety margin' and reduce volatility in their financial performance at various stages of the economic cycle, and thereby mitigate their adverse impact on equity capital.

The Bank of Russia will continue to take steps in the following areas.

In order to maintain banking sector stability and protect the interests of depositors and creditors, it will continue to set out rules, regulations and draft laws aimed at:

– creating a mechanism to evaluate the business reputations of managers and owners of credit institutions, and broadening the supervisory powers of the Bank of Russia to obtain information and maintain databases on individuals whose actions are in breach of the laws of the Russian Federation or detrimental to the financial situation of a credit institution;

– empowering the Bank of Russia to process personal data that it receives in the course of fulfilling its functions;

– improving merger and acquisition procedures to enable various categories of corporate entities, including credit institutions, to participate in reorganisations;

– setting a requirement for nominal shareholders to inform a credit institution about holders of its shares and about shareholders of joint-stock companies who indirectly (through third persons) exert a material influence on decisions taken by the management of the credit institution, including third persons through which material influence is exerted indirectly on decisions taken by the credit institution. This procedure would allow the Bank of Russia and share-issuing credit institutions to obtain information on persons participating in the institutions' capital;

– simplifying the procedure for issuing securities, by repealing the compulsory registration of results of share issues, and lifting the requirement to limit the size of bond issues to the amount of authorised capital, and improving the effectiveness of control over compliance with federal laws and Bank of Russia regulations, by introducing additional sanctions against acquirers that violate federal laws and Bank of Russia regulations;

– using federal postal service organisations for the purpose of conducting certain technological operations involved in the implementation of banking operations.

Work will also be carried out on a legislative level to establish the powers of the Bank of Russia to set requirements for risk management systems in credit institutions, and to determine the range of issues which, allowing for the specifics of the banking business, fall within the competence of the supervisory board (board of directors), the requirements for the composition of the board of directors (supervisory board) in credit institutions, and the procedures for making decisions by the board of directors (supervisory board).

In view of the need to maintain the stability of the banking system and protect the legitimate interests of banks' depositors and creditors, the Bank of Russia and the Russian Government will continue to implement the provisions of Federal Law No. 181-FZ, dated July 18, 2009, 'On the Use of Federal Government Securities for the Purpose of Increasing the Capitalisation of Banks.

Efforts will continue to be taken to create the necessary legal conditions for cooperation between the Bank of Russia and audit companies in tackling issues relating to the activities of credit institutions, banking groups, and bank holdings, and also to strengthen the legal basis of the Bank of Russia's powers to regulate credit institutions' activities relating to trust management of general bank management funds.

The Bank of Russia will continue to upgrade macroprudential analysis by calculating and publishing, in collaboration with the IMF, financial soundness indicators, and will improve systemic risk assessment by conducting stress tests.

To ensure better protection of the interests of banks' creditors and depositors, and to enhance the effectiveness of the deposit insurance system while maintaining the compulsory deposit insurance fund at an adequate level, the

[1] *Dynamic provisions are total loan loss provisions reflecting the various phases of an economic cycle. Dynamic provisions increase when the economy is growing and decrease when it is in recession.*

Bank of Russia intends to consider widening the range of persons covered by the Federal Law on Insuring Household Deposits in Russian Banks by including in it individual unincorporated entrepreneurs.

Inspections in 2010-2012 will focus primarily on detecting signs of financial instability in credit institutions, and situations that could endanger banking sector stability and the legitimate interests of depositors and creditors of credit institutions. Inspectors will pay particular attention to:

– assessments by banks of credit risk (including credible accounting and reporting of overdue debt and adequate loan-loss provisioning) and the effect of credit risk on capital and the overall financial soundness of credit institutions;

– analysis of liquidity in credit institutions and the liquidity risk assessment and management methodologies and instruments used by them;

– monitoring of settlement discipline and the timeliness of the implementation of customer payments by credit institutions;

– the identification of suspicious operations, including multi-stage settlement schemes used to increase equity capital by inappropriate assets, for the purpose of ‘regulating’ capital and required reserves;

– compliance with laws and regulations on countering money laundering and terrorist financing;

– monitoring of the use by credit institutions of government support funds and compliance with Bank of Russia regulations setting out the procedure for providing Bank of Russia loans.

The Bank of Russia will continue the experiment to centralise inspections in the Northwestern Federal District, which will lead to an overhaul of the entire inspection organisation structure. This experiment will include further testing of possibilities for making inspectors more independent, manoeuvring inspection resources, exchanging expertise, and tightening requirements as to the quality of both inspection and supervision.

To improve the quality of inspections the Bank of Russia will continue to develop the internal control system including the on-going monitoring of the process and results of inspections held in systemically important and problem credit institutions and prompt analysis of the quality of inspection reports.

The Bank of Russia will promote cooperation with other government supervisory agencies in ascertaining the credibility of the reports presented by borrowers and founders (members) of credit institutions.

In 2010 and in the period of 2011 and 2012, the Bank of Russia will continue to improve the procedure for liquidating credit institutions that have had their banking licences revoked. Specifically, laws and regulations will be passed to enable the use of non-pecuniary forms of settlements with creditors in the course of banks’ bankruptcy proceedings. This will make it possible to transfer all properties of the insolvent debtor along with the debtor’s obligations, and to use in settlements with creditors other forms of the termination of obligations stipulated by Russian Federation civil law.

The Bank of Russia will continue to implement the federal law on countering money laundering and terrorist financing, paying special attention to the adherence by credit institutions to the necessary conditions guaranteeing the compliance to this law.

V.2. Measures to be implemented by the Bank of Russia to improve financial markets in 2010 and in the period of 2011 and 2012

In order to improve the effectiveness of the infrastructure of the Russian financial market, and to encourage the development of financial market instruments, the Bank of Russia will carry out in 2010-2012 the following measures:

– implement a plan of action to build an international financial centre in Moscow;

– improve the regulatory framework of repo transactions, amending the law to include a comprehensive definition of a repo transaction, which would reflect both the standard and new market elements, for the purpose of advancing the development of the money market and increasing its liquidity;

– introduce arrangements making it possible to provide securities on a returnable basis for the completion of settlements, with the objective of improving the stability and liquidity of financial markets;

– participate in the upgrading of tax legislation, to settle issues relating to the taxation of repo transactions and the provision of securities on a returnable basis. Specifically, the aims are to broaden opportunities for the management of collateral in conducting repos, introduce call repos, set up a mechanism making it possible to change the repo interest rate, tackle issues relating to the taxation of dividends on securities provided as collateral in repos, and make provisions for and revaluations of repos;

– legislate for the liquidation-netting mechanism (first and foremost for financial derivatives), and apply it to repos;

– amend applicable regulations to provide access for government securities to secondary trading on the Russian stock exchanges;

– continue to upgrade clearing laws for the purpose of enhancing the effectiveness of risk management in transactions conducted by financial market participants through the trade organiser;

– continue to upgrade legislation regulating the organisation of trade, for the purpose of increasing the protection of the rights and interests of investors;

– assist in the upgrading of the system of indicators for market interest rates, for the purpose of advancing the development of the money market and improving interest rate risk management.

V.3. Measures to be implemented by the Bank of Russia to improve Russian payment system in 2010 and in the period of 2011 and 2012

In 2010-2012, the Bank of Russia will carry out measures to upgrade the Russian payment system, for the purpose of ensuring its effective and uninterrupted functioning in the interests of the sustained development of the banking system and macroeconomic stability.

The Bank of Russia will continue to participate in upgrading legislation setting out the fundamental organisational and legal principles for the Russian payment system, and issue key documents regulating the functioning of payment systems.

To create conditions conducive to improving the Russian payment system, raising the effectiveness of payment processing at all stages of money transfer, and adopting international standards, the Bank of Russia will continue to modernise the instruments of payment and improve payment and money transfer rules, taking into account international experience and national banking practice.

The principal measures to improve the Bank of Russia's payment system will be designed to overhaul the existing payment system, for the purpose of centralising its architecture, primarily the management of the payment system and the effectuation of settlements, according to a single procedure, and the creation of a comprehensive regulatory framework that will make it possible to increase the transparency of the payment system, cut operating costs, and reduce the risks affecting the performance of the entire banking system.

To enable financial market participants to effectuate 'delivery versus payment' settlements using funds in Bank of Russia accounts, the Bank of Russia will develop and implement an interface for the banking electronic speed payment system (BESP) and the settlement system on the government securities market.

When transferring funds to the budget system of the Russian Federation, credit institutions will be able to use a mechanism allowing them to pass to the Federal Treasury through the Bank of Russia online information from the payment documents of private individuals.

The Bank of Russia will continue to introduce to its payment system upgraded formats of settlement documents, and introduce international standards for the transmission and processing of payment information. This applies particularly to electronic message formats that would allow participants to use automated straight-through processing of payments.

To accelerate non-cash settlements via the Bank of Russia, the latter will organise an electronic exchange of documents between its customers, enabling them to make inquiries and receive replies to confirm the correctness of settlement document particulars.

The Bank of Russia will continue to stimulate the development of retail payment services and improve the financial literacy of the population in this field.

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 2010

Measures	Implementation period
Banking system and banking supervision	
1. Participation in drafting amendments to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) for the purpose of expanding the range of sanctions the Bank of Russia can use against credit institutions, in line with the recommendations of the Basel Committee on Banking Supervision.	Q1-Q4
2. Participation in finalising draft amendments to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) for the purpose of specifying the main principles of consolidated supervision and the disclosure by credit institutions, banking groups, and bank holdings of information to interested users.	Q1-Q3
3. Participation in drafting a federal law to legalise the use of federal postal service organisations in conducting certain banking-related technological operations.	Q1-Q4
4. Continuing the drafting of amendments to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) for the purpose of specifying requirements applicable to bank executives, and granting the Bank of Russia the right to set business-reputation criteria for them and collect information, and maintain a database on credit institution managers and employees whose actions have harmed their credit institutions or who have violated the federal laws or Bank of Russia regulations.	Q1-Q3
5. Participation in drafting amendments to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) for the purpose of granting the Bank of Russia the right to process personal data received in the course of fulfilling its functions, including the storage and current use by the Bank of Russia of personal data, which comprise data on managers of credit institutions and their divisions, founders (members) of credit institutions, and other persons.	Q1-Q3
6. Participation in drafting amendments to the Federal Securities Market Law, for the purpose of setting a requirement for nominal shareholders to provide information to the credit institution on the owners of shares in the credit institution and on the shareholders of joint-stock companies through which the beneficial owners of the credit institution exert indirectly a material influence on decisions taken by the credit institution's management.	Q1-Q4
7. Participation in drafting a federal law designed to simplify the issue of securities, by cancelling the requirement to register reports on the results of securities issues and the requirement to limit the value of bonds issued to the size of authorised capital, and to rationalise control over compliance with the federal laws and Bank of Russia regulations by enforcing additional sanctions against acquirers who have violated the federal laws or Bank of Russia regulations.	Q2-Q3
8. Continuing to draft amendments to the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, for the purpose of regulating the transfer of property of the liquidated credit institution to the operating bank, and the use of termination fees in settlements with creditors in the course of bankruptcy proceedings.	Q2-Q3

Measures	Implementation period
9. Participation in drafting amendments to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism and upgrading Bank of Russia regulations and recommendations relating to the prevention of money laundering and terrorist financing.	Q1-Q4
10. Completion and enforcement of Bank of Russia regulations conducive to the implementation of the simplest approaches to bank capital adequacy assessment, including operational risk assessment, in compliance with the Basel Committee's *International Convergence of Capital Measurement and Capital Standards. A Revised Framework (Basel II).*	Q1-Q4
11. Participation in a campaign to improve the financial literacy of the population in the field of banking and retail payment services.	Q1-Q4
Financial markets	
12. Implementation of a plan of action to set up an international financial centre in Moscow.	Q1-Q4
13. Continuing to upgrade regulations governing repo transactions.	Q1
14. Participation in work to introduce a mechanism for providing securities on a returnable basis.	Q1-Q2
15. Participation in upgrading tax laws for the purpose of settling issues relating to the taxation of repo operations and operations to provide securities on a returnable basis.	Q1-Q4
16. Drafting legislation on liquidation netting.	Q1-Q4
17. Introducing services for market participants to manage collateral in repo transactions (trilateral repo).	Q1-Q4
18. Continuing to upgrade clearing laws.	Q1-Q2
19. Amending laws to enable secondary trade in government securities on Russian stock exchanges.	Q1-Q2
20. Continuing to upgrade legislation regulating the organisation of trade.	Q1-Q4
21. Promoting the development of the market interest rate index system.	Q1-Q3
Russian payment system	
22. Continuing to participate in upgrading legislation governing the Russian payment system and incorporating into Bank of Russia regulations key provisions on the functioning of payment systems.	Q1-Q4
23. Upgrading the instruments of payment, and payment and money transfer rules, and harmonising them with international practice.	Q1-Q4
Bank of Russia payment system	
24. Converting settlements on the government securities market and the unified trading session of the interbank currency exchanges to the banking electronic speed payment system (BESP).	Q1-Q4
25. Arranging electronic document turnover between the Bank of Russia, the Federal Treasury, and banks to enable them to electronically send and receive information from payment documents, and between Bank of Russia customers to enable them to send requests and receive replies to verify the correctness of settlement document particulars.	Q4