The Central Bank of the Russian Federation

Guidelines for the Single State Monetary Policy in 2011 and for 2012 and 2013

Approved by the Bank of Russia Board of Directors on 12 November 2010

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I. Medium-term monetary policy principles

During the next few years, the Russian economy needs to overcome the consequences of the global financial and economic crisis and embark upon a path of sustainable growth. The principal objective of monetary policy over the next three years will therefore be to keep inflation at an annual rate of 5-7%. Inflation control and stability will help create low inflationary expectations and encourage business activity.

To improve the effectiveness of monetary policy, the Bank of Russia will continue to move towards a free floating exchange rate, without obstructing rouble exchange rate dynamics, based on fundamental macroeconomic factors. At the same time, it will retain its presence on the domestic foreign exchange market in order to mitigate excessive fluctuations in the rouble value of the bi-currency basket.

The scaling down of interventions on the domestic foreign exchange market, the increased flexibility of the rouble's exchange rate, and the gradual winding up of anti-crisis measures will stimulate the role of the Bank of Russia's interest rate policy in reducing inflation as well as the inflationary expectations of economic agents.

The interest rate policy is aimed at gradually narrowing the Bank of Russia's interest rate band in order to reduce interest rate volatility on the money market. The liquidity level and interest rates on this market will also be significantly affected by the federal budget deficit, efforts made by the federal government to cut this deficit, and the emphasis on domestic borrowing for the purpose of financing this deficit. Therefore, the effectiveness of the Bank of Russia's monetary policy actions will largely depend on the state of government finances and the success of the moderately tough budget policy set out in the draft federal law on the federal budget for 2011 and the planning period of 2012 and 2013.

As the acute phase of the crisis comes to an end and economic growth resumes, the special anti-crisis measures are gradually being scaled back. Standard instruments will play the main role in monetary regulation.

The financial and economic turmoil has provided a clear demonstration of the extent to which the financial sector's problems affect virtually all sectors of the economy. Having learned the lessons of the crisis and gained experience in tackling it, the Bank of Russia now intends to take further steps to strengthen financial stability, in particular raising the requirements for financial soundness and risk management in credit institutions, thereby facilitating the further consolidation and capitalisation of the banking sector. Increased competition will require a change in the credit institution development model towards greater diversification of banking services and reduced risk concentrations. This will also facilitate the development of the Russian economy, and increase its international competitiveness.

To increase the effectiveness of its actions, the Bank of Russia will pursue monetary policy with consideration for the situation on the financial markets and the risks arising from growth in monetary aggregates, and credit and asset prices. It will pay special attention to a more comprehensive analysis of trends in monetary and credit indicators, to ensure that its timely actions in monetary policy and banking regulation and supervision help prevent imbalances in the financial sector of the economy, and thereby not only bring down inflation, but also maintain financial stability and a state of overall macroeconomic equilibrium.

To maintain public confidence in monetary policy, the Bank of Russia will continue to actively explain to the general public the rationale behind its decisions, and their expected consequences. As part of preparations for introducing inflation targeting, the Bank of Russia will also continue to upgrade its economic modelling and forecasting methods, as well as the decision-making mechanism relating to changes in the parameters of Bank of Russia policy.

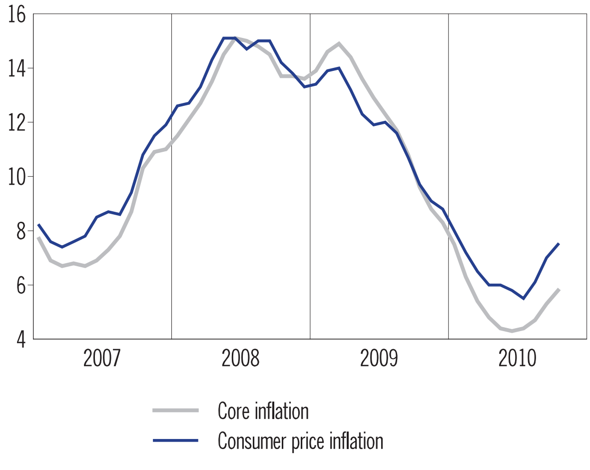
II. Russia's economic development and monetary policy in 2010

II.1. Inflation and economic growth

In January-September 2010, the Russian economy continued to recover from the deep recession caused by the global financial and economic crisis. The gradual recovery of the global economy and improvements in the terms of trade led to growth in Russian exports and production. As net private capital outflow decreased, growth in consumer and investor activity resumed. In January-June 2010, GDP grew by 4.2%. In the third quarter, however, growth in goods and services was estimated at less than 3%, suggesting that GDP growth in 2010 as a whole may be smaller than expected (4%).

With the economic growth experienced in January-September 2010, the number of employed rose compared to the same period of last year. Unemployment figures began to fall in February, and by the end of September stood at 6.6% of the economically active population (compared to 7.6% a year earlier).

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



Real disposable money income of households increased by 4.8% in January-September 2010 compared to the same period last year. Households spending on goods and services grew by an estimated 4.3% in real terms. The improved financial standing of organisations caused a rise in investment. In January-September 2010, fixed capital investment increased by 3.8%, whereas in the same period last year it contracted by 19.6%.

With world energy prices at higher levels than in 2009, budget revenue increased. Government policy measures aimed at boosting domestic demand led to growth in general government expenditure on final consumption. The federal budget deficit contracted significantly in January-September 2010, compared with the same period of 2009, to reach 2.2% of GDP.

Inflation slowed significantly in January-July 2010 due to low demand, the still negative output gap[1], and the strengthening of the rouble. In July 2010, inflation slowed to 5.5% on a year-on-year basis, the lowest rate since 1991.

In August-October 2010, price growth accelerated. In August consumer prices rose by 6.1% on a year-on-year basis, in September by 7.0%, and in October by 7.5%. The accelerated inflation was largely a result of short-term volatility factors, particularly the steeper growth in food prices caused by the unfavourable weather conditions.

[1] *The negative output gap implies that actual output was lower than its potential (natural) level, i.e. actual demand fell short of potential supply.*

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

	2007		2008		2009		2010	
	core inflation	inflation	core inflation	inflation	core inflation	inflation	core inflation	inflation
January	0.6	1.7	1.1	2.3	1.3	2.4	0.5	1.6
February	1.1	2.8	2.1	3.5	2.9	4.1	1.0	2.5
March	1.7	3.4	3.2	4.8	4.3	5.4	1.5	3.2
April	2.2	4.0	4.5	6.3	5.2	6.2	1.7	3.5
May	2.5	4.7	5.7	7.7	5.7	6.8	1.8	4.0
June	3.0	5.7	6.7	8.7	6.0	7.4	2.0	4.4
July	3.9	6.6	7.6	9.3	6.3	8.1	2.4	4.8
August	5.0	6.7	8.6	9.7	6.8	8.1	3.1	5.4
September	6.7	7.5	10.1	10.6	7.3	8.1	4.3	6.2
October	8.9	9.3	11.5	11.6	7.6	8.1	5.1	6.8
November	10.1	10.6	12.7	12.5	8.0	8.4		
December	11.0	11.9	13.6	13.3	8.3	8.8		

Nevertheless, in January-October 2010 inflation was lower than in the same period last year. Compared to December 2009, consumer prices rose by 6.8% in October 2010, whereas in the first ten months of last year they grew by 8.1%. Prices of goods and services factored into core inflation gained 5.1% in January-October 2010 as against 7.6% a year earlier (in October they rose by 5.8% on a year-on-year basis).

Growth in non-food prices slowed to 3.8% from 9.0% in January-October 2009, whereas growth in food prices net of vegetables and fruit accelerated from 6.3% to 7.0%. Prices of services provided to households rose by 7.4%, down 3.5 percentage points on the same period last year.

Consumer prices in the fourth quarter of 2010 (October figures included) are expected to gain more than in the same period last year, and full-year inflation may run at about 8%.

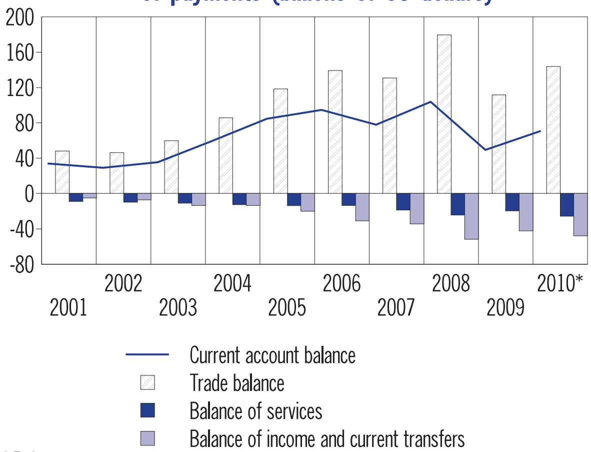
II.2. Balance of payments

Different factors affected the balance of payments in January-September 2010. The situation on the market for major Russian exports improved along with the recovery of domestic demand, which contributed to an acceleration of import growth. The current account surplus contracted each quarter. The foreign capital inflow increased but failed to offset the outflow. As a result, growth in international reserves in the third quarter of 2010 slowed significantly.

The current account surplus rose by a factor of 1.8 in January-September 2010 compared with the same period last year, reaching $60.9 billion. The trade surplus grew by 50% to $114.5 billion.

Exports of goods increased by 37.8% to $286.5 billion. Almost half of this growth was due to the increase in average contract prices of crude oil and petrochemicals. Natural gas prices remained virtually unchanged, while export volumes expanded by 14.5%. Aggregate exports of energy and fuel products reached $183.0 billion as against $129.6 billion in January-September 2010, and their share in exports increased from 62.4% to 63.9%. Growth in ex-

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



* Estimate.

ports of other items (by 32.3%) was also largely attributable to higher prices.

Imports of goods reached $172.0 billion in January-September 2010, representing an increase of 30.8%. Almost two-thirds of this growth was due to the expansion of import quantities. The structure of imports, which has always been dominated by machinery, equipment, transport vehicles, chemicals, foodstuffs, and raw materials for their production, remained virtually unchanged.

The negative balance of international trade in services increased by 30.5% to $18.6 billion. The value of services provided to non-residents grew by 7.5% to $32.6 billion. The value of services received, estimated at $51.2 billion, was 14.8% higher than in the same period last year. Of this figure, expenditure involved in residents' travel abroad was 6.5% higher than the pre-crisis high registered in January-September 2008.

The deficit of the balance of employees' compensation changed slightly, and stood at $6.8 billion as against $6.5 billion in January-September 2009.

The negative balance of investment income rose from $20.5 billion to $24.9 billion. Payables increased by 15.5%, and receivables by 10.2%. As a result of growth in reinvested income and dividends, total private sector payments to non-residents grew to $48.8 billion. Income received by banks and other sectors[2] from abroad was estimated at $20.8 billion. The monetary authorities' surplus of investment income declined from $5.4 billion in January-September 2009 to $3.6 billion in the same period of 2010, owing to the fall in returns from reserves.

As residents' remittances abroad grew faster than non-residents' remittances to Russia, current transfers paid exceeded transfers received by $3.3 billion (in January-September 2009 the excess was estimated at $1.9 billion).

As foreign investment resumed in the public and private sectors amid the contraction of capital outflow abroad, the financial account deficit (net of reserves, including 'net errors and omissions') shrank from $46.8 billion in January-September 2009 to $15.6 billion in the same period of 2010.

For the first time since 1998, the general government accumulated significant foreign liabilities. The Ministry of Finance placed $5.5 billion in eurobonds, of which non-resident investments were estimated at $5.1 billion. There was also a rise in foreign liabilities of regional governments, as non-residents acquired bonds denominated in roubles. General government claims grew slightly.

In January-September 2010, resident credit institutions increased their foreign liabilities by $11.6 billion, and at the same time reduced corresponding claims by $4.3 billion. Over the same period of 2009, banks paid off liabilities to the amount of $35.7 billion, while building up foreign assets by $4.6 billion.

Due to the redemption of a substantial amount of foreign credit obligations, by the end of the third quarter of 2010 the raising of foreign capital by other sectors had slowed to $17.3 billion (from $26.7 billion in January-September 2009). Liabilities in the form of direct investments increased by $22.3 billion as against $26.0 billion a year earlier. At the same time, capital outflow from other sectors decreased to $39.7 billion from $51.6 billion. Foreign currency held by residents (excluding banks) contracted by $13.0 billion, whereas in January-September 2009 they grew by $1.3 billion.

Compared to January-September 2009, net private capital outflow contracted more than fourfold, from $65.5 billion to $16.0 billion.

Growth in reserve assets, recognised in the balance of payments, amounted to $45.4 billion in January-September 2010. Taking into account other changes, including exchange rate revaluation, international reserves of the Russian Federation reached $490.1 billion as of 1 October 2010. The country had sufficient reserves to finance the import of goods and services for 20 months (19 months as of 1 October 2009).

The expected world price of Russian oil in 2010 (averaging $76 per barrel) will help the country to strengthen its balance of payments. With exports of goods estimated at $394.3 billion and imports at $250.4 billion, the trade surplus will reach $144.0 billion. As international services received by residents are growing faster

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

than services provided to non-residents, and in view of the negative balance of income and current transfers, the current account surplus will stand at $70.5 billion. Net private capital outflow in 2010 is estimated at $22.0 billion. The financial account deficit will amount to $20.6 billion, and growth in foreign exchange reserves to $50.0 billion.

II.3. Exchange rate

The situation on the domestic foreign exchange market in 2010 was affected by the state of the foreign financial and commodity markets and the parameters of the Bank of Russia's exchange rate policy, which was aimed at ensuring the stability of the rouble exchange rate, and was implemented as part of the managed floating exchange rate regime.

In 2010, when conducting operations on the domestic foreign exchange market, the Bank of Russia continued to use the value of the bi-currency basket, comprising 0.45 euros and 0.55 US dollars, as an operational benchmark, setting an operating floating band for its permissible values and correcting the limits of the band depending on the volume of currency interventions.

In addition to conducting interventions aimed at mitigating rouble exchange rate volatility, the Bank of Russia in 2010 purchased foreign currency to offset the effect of ongoing imbalance between demand and supply on the domestic foreign exchange market. The parameters of these operations are now set with account for the major external factors affecting the balance of payments. Targeted interventions are primarily designed to neutralise the persistent expectations of domestic foreign exchange market participants in regard to the fluctuating exchange rate of the rouble, induced by the changing conditions on the world energy market.

In the second quarter of 2010, in order to upgrade exchange rate policy mechanisms, the Bank of Russia modified the procedure for conducting interventions aimed at preventing sharp exchange rate fluctuations by adding the possibility of buying and selling foreign currency within the floating operating band. In line with the existing exchange rate policy parameters, whenever the volume of Bank of Russia operations within or on the limits of the operating band of the bi-currency basket exceeds the volume of Bank of Russia targeted interventions, the limits of this band are readjusted accordingly.

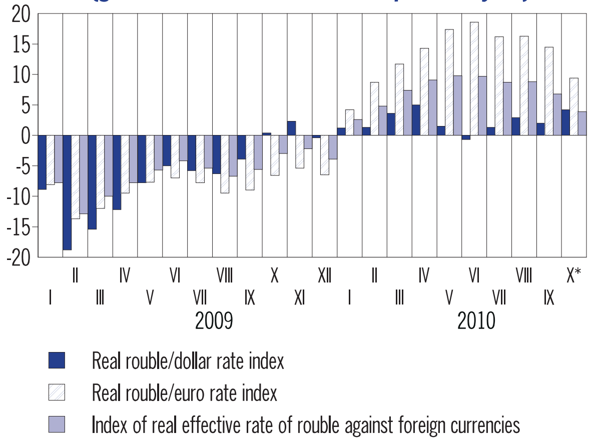
To make the exchange rate-setting mechanism even more flexible, the Bank of Russia on 13 October 2010, broadened the operating floating band from 3 roubles to 4 roubles, and reduced the value of accumulated interventions from $700 million to $650 million that caused the limits of the band to shift by 5 kopecks.

In the early months of 2010, when the foreign trade situation was favourable, the growing inflow of funds from foreign trade transactions exceeded net private capital outflow, which led to foreign exchange supply exceeding demand on the domestic market; as a result, the rouble appreciated.

However, in May 2010, when the price of oil fell on world markets and sovereign debt servicing problems worsened in certain eurozone countries, provoking negative investor expectations, the rouble's persistent appreciation against the bi-currency basket gave way to a slight weakening amid increased exchange rate volatility. In the summer months of 2010, when there were high levels of uncertainty on foreign markets, rouble exchange rate dynamics were mixed, and the Bank of Russia's presence on the domestic foreign exchange market remained small.

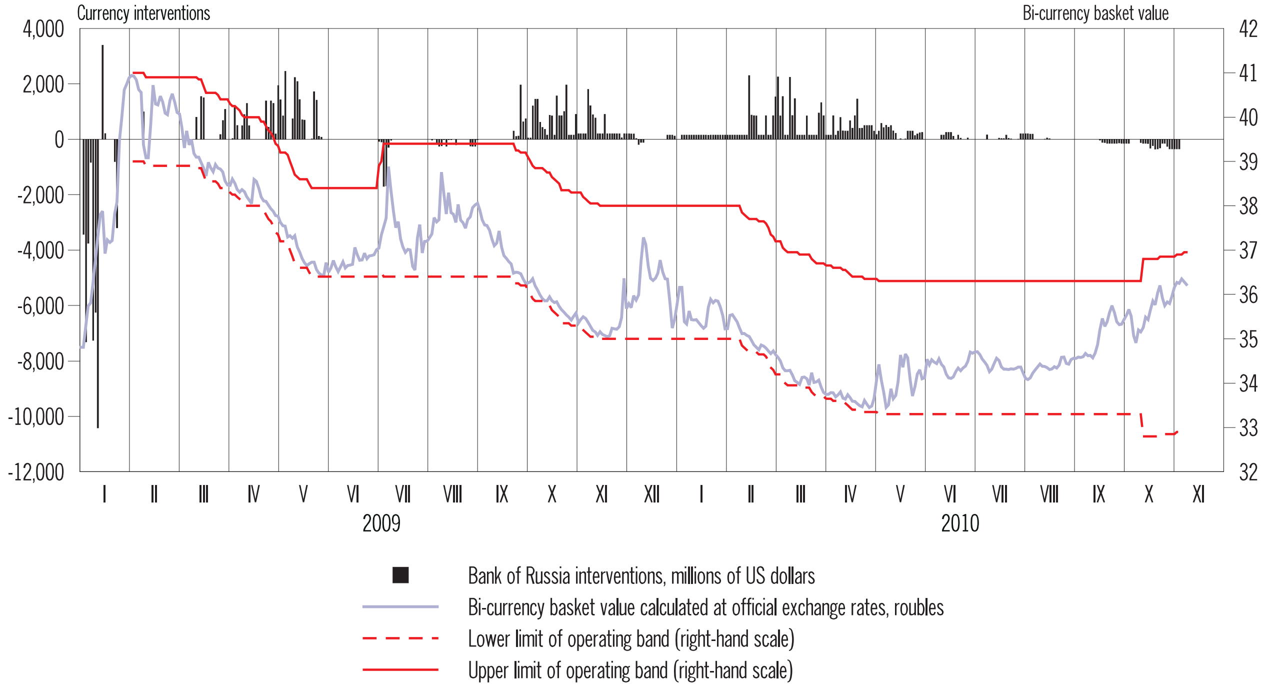
In the second half of September, when demand for foreign exchange rose due to corporate sector foreign debt payments, among other

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



* Preliminary data.

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



factors, the rouble rate began to decline again. However, as there were no fundamental factors for a sustained depreciation of the rouble, the value of the bi-currency basket did not go beyond the limits of the operating band, and Bank of Russia interventions remained relatively small.

This exchange rate policy model creates acceptable conditions for economic agents to adapt to the changing exchange rate, taking into account the Russian economy's vulnerability to external shocks. Notably, on 13 October the Bank of Russia announced that it was not setting fixed quantitative limits on the exchange rate.

In January-October 2010, implementing this policy, the Bank of Russia both bought (in January-August) and sold (in September and October) foreign currency on the domestic market. Its net purchases of foreign currency during that period reached $40.6 billion[3], of which $15.9 billion fell on targeted interventions.

As of 1 November 2010, the value of the bi-currency basket stood at 36.16 roubles, i.e. the same as of 1 January 2010. However, the official rate of the US dollar against the rouble in January-October 2010 rose by 2.0% to 30.7821 roubles to the US dollar as of 1 November 2010, while the official rate of the euro against the rouble slipped by 1.7% to 42.7256 roubles to the euro.

According to preliminary data, the real effective rouble rate index rose by 3.9% in October 2010 compared to December 2009, while the real rate of the rouble against the euro gained 9.4%, and against the dollar 4.2%.

II.4. Monetary policy implementation

During 2010, monetary policy has been implemented amid conditions where the most acute phase of the global financial crisis has been overcome, although the Russian economy has not yet embarked upon a path of sustainable growth. The large-scale anti-crisis measures taken by the Russian Government and the Bank of Russia in 2008 and 2009 allowed them to eliminate the liquidity shortage and prevent instability in the banking system. The first signs of improvement in key macroeconomic and financial indicators allowed the Bank of Russia to gradually phase out measures that it enforced at the worst stage of the crisis. At the same time, the faltering recovery of business activity and the

[3] Net of conversion operations conducted by the Bank of Russia on the instructions of the Ministry of Finance.

slow growth in bank lending dictate the need to bolster and expand aggregate demand.

Interest rate policy

As inflation slowed and inflationary expectations subsided, the Bank of Russia continued in the first half of 2010 to cut interest rates on its operations, a policy that it started to pursue in April 2009 to reduce the cost of borrowing in the economy, stimulate lending and economic growth and contain the inflow of short-term speculative capital. By June, the Bank of Russia Board of Directors had taken a decision to cut the refinancing rate and interest rates on certain operations four times.

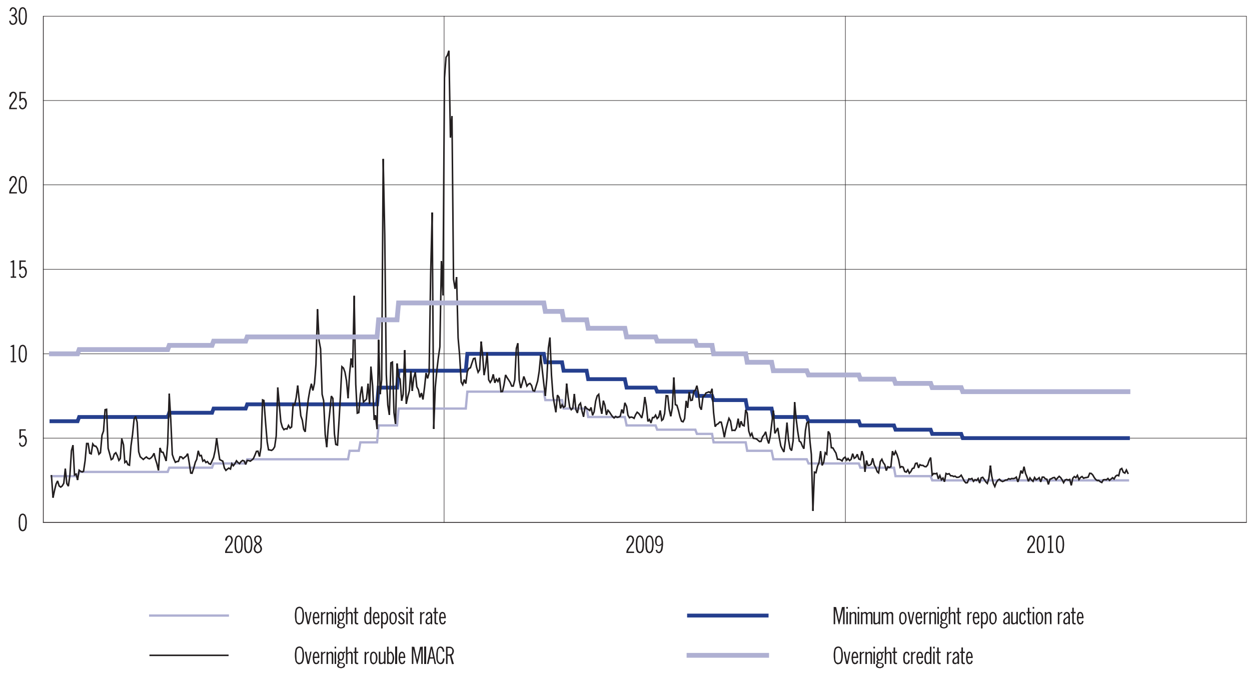
Due to a structural surplus of liquidity in the banking sector, Bank of Russia deposit interest rates became of paramount importance for interest rate dynamics on the money market. To enhance the effect of the interest rate policy and to lessen interest rate volatility on the interbank market, the Bank of Russia on 29 March 2010, resumed overnight deposit operations at fixed interest rates, and in September extended the

Bank of Russia interest rates in 2010 (% p.a.)

Type of instrument	Purpose	Instrument	Maturity	Prior to 24.02	Interest rate change from:			
					24.02	29.03	30.04	1.06
Open market operations	Providing liquidity	Lombard auctions (minimum rates)	14 days*	6.00	5.75	5.50	5.25	5.00
			3 months	7.50	7.25	7.00	6.75	6.50
			6 months**	8.00	7.75	7.50	7.25	7.00
			12 months***	8.50	8.25	8.00	7.75	7.50
		Auction-based (exchange and over-the-counter) repo (minimum rates)	1 day	6.00	5.75	5.50	5.25	5.00
			7 days	6.00	5.75	5.50	5.25	5.00
			90 days	7.50	7.25	7.00	6.75	6.50
			6 months***	8.00	7.75	7.50	7.25	7.00
			12 months***	8.50	8.25	8.00	7.75	7.50
		Unsecured loans (minimum rates)****	1 week	10.00	10.00	10.00	10.00	10.00
			5 weeks	10.25	10.25	10.25	10.25	10.25
			3 months**	10.50	10.50	10.50	10.50	10.50
			6 months***	10.75	10.75	10.75	10.75	10.75
			12 months***	11.25	11.25	11.25	11.25	11.25
	Absorbing liquidity	Deposit auctions (maximum rates)	4 weeks	5.75	5.5	5.25	5.00	4.75
			3 months	6.75	6.5	6.25	6.00	5.75
Standing facilities	Providing liquidity	Overnight loans	1 day	8.75	8.50	8.25	8.00	7.75
		Lombard loans	1 day	7.75	7.50	7.25	7.00	6.75
			7 days	7.75	7.50	7.25	7.00	6.75
			30 days	7.75	7.50	7.25	7.00	6.75
		Repo	1 day	7.75	7.50	7.25	7.00	6.75
			7 days	7.75	7.50	7.25	7.00	6.75
			12 months	8.50	8.25	8.00	7.75	7.50
		Currency swap (rouble part)	1 day	8.75	8.50	8.25	8.00	7.75
		Loans extended against the collateral of non-market assets or guarantees	Up to 90 days	7.75	7.50	7.25	7.00	6.75
			From 91 to 180 days	8.25	8.00	7.75	7.50	7.25
			From 181 to 365 days***	8.75	8.50	8.25	8.00	7.75
	Absorbing liquidity	Deposit operations	Overnight	-	-	2.75	2.50	2.50
			Tom-next, spot-next and call	3.50	3.25	3.00	2.75	2.50
			1 week, spot-week	4.00	3.75	3.50	3.25	2.75
Memo item:								
Refinancing rate				8.75	8.50	8.25	8.00	7.75

** 7 days from 30 April 2010.*
*** Operations suspended by the Bank of Russia from 1 October 2010.*
**** Operations suspended by the Bank of Russia in April 2010.*
***** Operations with all maturities to be suspended from 1 January 2011, by decision of the Bank of Russia Board of Directors.*

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



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

period during which credit institutions could bid for these operations using the Reuters dealing system. After interest rates on overnight, tom-next, spot-next, and call deposit operations evened out on 1 June 2010, the single interest rate on these deposits came to set the lower limit of the Bank of Russia interest rate band, while the width of this band narrowed by a quarter of a percentage point.

On the whole, from the start of monetary policy easing up to 1 June 2010, the Bank of Russia's refinancing rate dropped 5.25 percentage points to 7.75%, the minimum interest rate on market operations to provide liquidity for terms of up to 7 days dropped 5 percentage points to 5%, and the overnight and call deposit rate fell 5.25 percentage points to 2.5%.

The prolonged period of interest rate cuts by the Bank of Russia, along with measures previously undertaken by the Government and the Bank of Russia to support credit institutions, facilitated a reduction of money market rates, improved the situation of the banking sector, and mitigated systemic risks.

In June 2010, money market interest rates reached a level that ensured an acceptable balance between accessibility of borrowings and inflationary risk. The level was neutral in terms of cross-border movement of short-term capital. This allowed the Bank of Russia Board of Directors to keep the refinancing rate and interest rates on Bank of Russia operations unchanged in June-October.

At the same time, the Bank of Russia took into account the need to continue pursuing an accommodative monetary policy in order to boost internal factors of growth.

In June-October 2010, the situation on the money market remained calm, with interest rates largely staying close to the lower limit of the Bank of Russia interest rate band. Specifically, the average weighted MIACR on overnight rouble loans, which stood at 4.0% p.a. in January, ran at 2.6% p.a. from June to September, and was 2.7% p.a. in October.

Consumer price growth accelerated in August-September, as inflationary expectations rose on the back of uncertainty over the damage to agriculture caused by the anomalous weather conditions, and growth in grain prices on world markets. The Bank of Russia believes, however, that these factors alone do not justify drawing conclusions about the adverse impact of these price shocks on inflation in the medium and long term.

Money supply

Money supply dynamics determine the risk of inflation in the medium and long term. For a relatively long period of time (the past two years) the slowing of annual growth rates in money supply contained the pressure of monetary factors on inflation dynamics in 2009 and the first half of 2010.

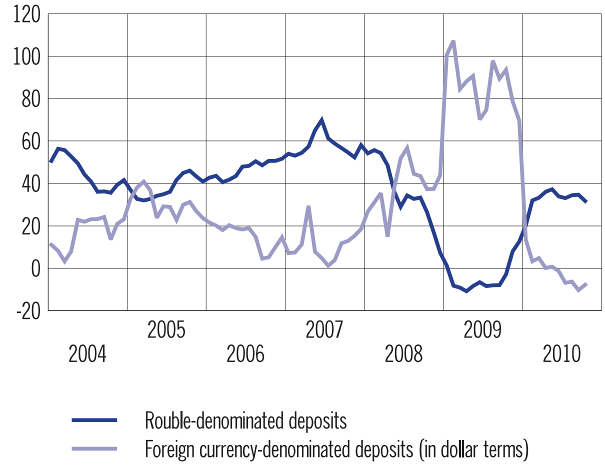
The economic recovery and the rouble's appreciation, which came mainly in the first quarter of 2010, combined with the slowing of inflation, caused the increase in money demand that had started last year to continue. Money supply also grew. After the acute phase of the financial and economic crisis, this money supply growth was largely a rehabilitating process, and as of 1 October 2010, the annual rate of growth in the monetary aggregate M2 reached 31.2%. The M2 growth estimate for 2010 as a whole has been raised to 25-28%.

At present, the Bank of Russia believes that the risk of inflation owing to monetary factors is at an acceptable level. The more flexible exchange rate-setting policy and the contraction of the federal budget deficit have contributed to a reduction of inflationary risk linked to money supply.

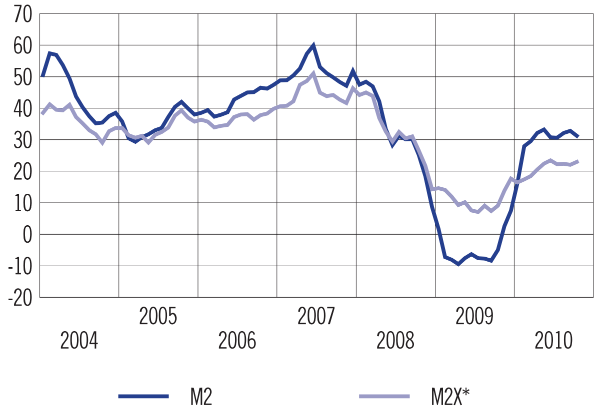
Exchange rate dynamics significantly affected the currency structure of financial assets chosen by economic agents. According to preliminary balance of payments data, foreign exchange outside banks contracted by $13.0 billion in the first nine months of 2010. According to preliminary data, foreign currency deposits decreased by 6.1% in dollar terms in January-September 2010, whereas in the same period last year they grew by 15.6%. Consequently, the share of foreign currency deposits in the structure of the monetary aggregate M2X, which includes foreign currency deposits, contracted to 16.8% as of 1 October 2010 as against 22.1% on the same date a year earlier. Nevertheless, annual growth rates in broad money M2X accelerated in 2010, and reached an estimated 22.9% on 1 October.

In March 2010, banks' lending to the real economy began to affect growth in aggregate money supply. The easing of monetary policy led to a gradual decline in borrowing costs for the non-financial sector of the economy. For exam-

Rouble and foreign currency-denominated deposits (growth as % of corresponding date of previous year)

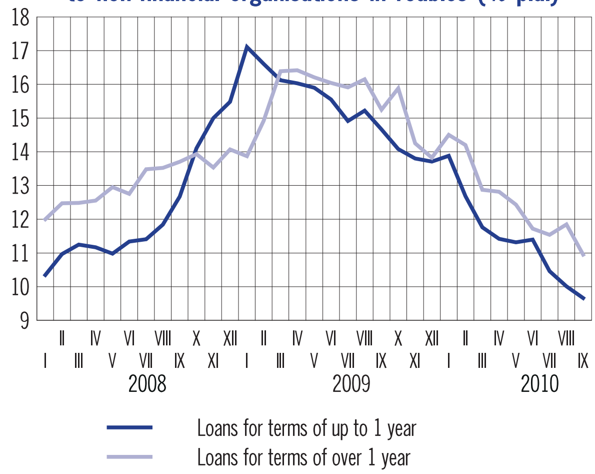


Monetary aggregates (as % of corresponding date of previous year)



* *Broad money.*

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



ple, the average weighted interest rate on rouble loans extended to non-financial organisations for terms of up to one year fell from 14.7% p.a. in September 2009 to 9.7% p.a. in September 2010, while this rate on loans with terms of over one year declined from 15.3% to 11.0% p.a.

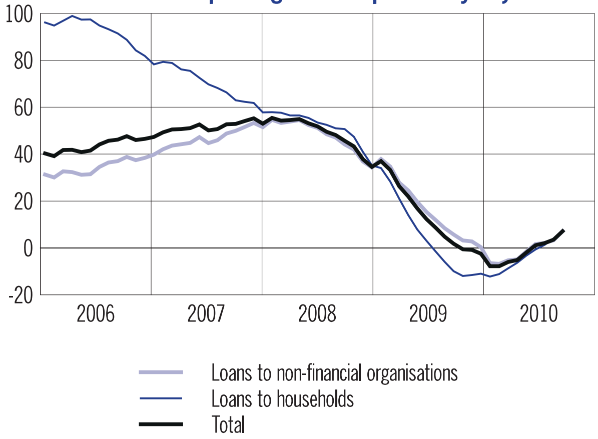
In addition to the lower cost of credit, lending was stimulated by a slight rise in demand for credit from non-financial borrowers amid conditions of growing business activity, an expansion in the deposit base of credit institutions, the launch of a government guarantee mechanism for bank loans to non-financial organisations, support for mortgage lending, and the programme for subsidising interest rates on car loans.

Debt on loans to non-financial organisations in roubles and foreign currency (in rouble terms) in January-September 2010 increased by 8.7%, while loans to households rose by 8.3%. However, there are several factors restraining growth in credit to the real economy.

Growth in overdue debt on bank loans to non-financial organisations and households has continued, albeit less intensively in 2010 than in 2009. Overdue debt owed by loans to non-financial organisations in January-September 2010 increased by 7.3%, while overdue debt owed by households rose by 18.8%. With persisting uncertainty and high credit risks, risk premiums, which make up part of the market cost of borrowing, remain at a relatively high level.

The broad monetary base[4], which characterises the monetary authorities' money supply, expanded by 10.2% in January-September 2010, whereas in the same period last year it contracted by 13.9%. The annual rate of growth in the broad monetary base as of 1 October 2010, was 48.3%, whereas a year earlier the monetary base contracted by 9.7% year-on-year. The fact that the monetary base is growing at a faster rate than money supply reflects the

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



reduction of the money multiplier, which stood at 11.6% in the period under review. This trend was a result of a significant rise in the level of banking sector liquidity: the ratio of total banking sector reserves[5] to deposits included in the monetary aggregate M2 grew from 13.0% as of 1 October 2009, to 19.4% as of 1 October 2010. This increase shows that bank lending has potential for growth.

The change in the monetary base dynamics compared to the previous year was chiefly a result of accelerated growth in the monetary authorities' international reserves. In January-September 2010, net international reserves, calculated in dollar terms at the fixed rate of currencies against the US dollar, increased by 14.4% compared to 0.7% in the same period last year. Bank of Russia net foreign exchange purchases on the domestic foreign exchange market during this period totalled $44.5 billion, which made it possible to inject 1.3 trillion roubles in the banking sector. At the same time, the budget had a restraining effect on the expansion of the monetary base in 2010, owing to a surplus in the general government's budget (in January-August 2010 the general government's budget

[4] 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, funds in credit institutions' rouble-denominated correspondent accounts (including the averaged balances of the required reserves) and deposit accounts with the Bank of Russia, and credit institutions' investments in Bank of Russia bonds (at market value).

[5] Credit institutions' total reserves include cash balances in credit institutions' cash departments, funds in the required reserve accounts deposited by credit institutions with the Bank of Russia, funds in credit institutions' rouble-denominated correspondent accounts (including the averaged balances of the required reserves) and deposit accounts, and credit institutions' investments in Bank of Russia bonds (at market value).

Estimated monetary programme indicators for 2010 (billions of roubles)*

	1.01.2010 (fact)	1.10.2010 (fact)	1.01.2011 (forecast)	2010 growth (forecast)
Monetary base (narrow definition)	**4,716**	**5,147**	**5,922**	**1,206**
– cash in circulation (outside the Bank of Russia)	4,623	5,024	5,789	1,166
– required reserves	93	123	133	40
Net international reserves	**12,755**	**14,595**	**14,682**	**1,927**
– billions of US dollars	423	484	486	64
Net domestic assets	**-8,039**	**-9,448**	**-8,760**	**-721**
Net credit to general government	-5,516	-5,645	-4,683	832
– net credit to federal government	-4,614	-4,241	-3,683	931
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-902	-1,403	-1,000	-98
Net credit to banks	-53	-1,299	-1,400	-1,347
– gross credit to banks	1,640	589	600	-1,040
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb excess banking sector liquidity	-1,693	-1,888	-2,000	-307
Other net unclassified assets	-2,471	-2,505	-2,677	-207

** Programme indicators calculated at a fixed exchange rate are based on the official exchange rate of the rouble as of the beginning of 2010.*

surplus stood at 0.9% of GDP, compared with a deficit of 2.3% of GDP in the same period of 2009). In this situation, net credit to the general government extended by the monetary authorities in January-September 2010 contracted by 129.0 billion roubles.

In view of current trends, the Bank of Russia has revised the monetary programme parameters for 2010. By and large, the expected year-end indicators are close to the fourth variant of the monetary programme parameters described in the Guidelines for the Single State Monetary Policy in 2010 and for 2011 and 2012, which is based on an average annual price of Urals crude at $80 per barrel. Growth in the narrow monetary base in 2010 is estimated at 26%, and at the end of 2010 its value may reach 5.9 trillion roubles (the same figure is cited in the fourth variant of the programme). Net international reserves held by monetary authorities in 2010 may grow by 1.9 trillion roubles, according to the balance of payments forecast (the fourth variant of the monetary programme for 2010 envisages an increase of 2.0 trillion roubles). Net credit extended by the Bank of Russia to the general government may increase by 0.8 trillion roubles in 2010 (the fourth variant of the monetary programme for 2010 envisages growth of 0.9 trillion roubles).

Monetary policy instrument application

As the balance of payments gained strength and a large amount of liquidity flowed into the banking sector in 2010, partly due to Bank of Russia interventions on the domestic foreign exchange market, the role of instruments designed to absorb credit institutions' spare funds increased in implementing monetary policy. The principal instruments used by the Bank of Russia were deposit operations and Bank of Russia bonds (OBR). As of 1 October 2010, these instruments allowed the Bank of Russia to absorb a total of 1.3 trillion roubles of credit institutions' funds.

The total value of deposit deals concluded by the Bank of Russia in the first nine months of 2010 reached 26.1 trillion roubles, representing an increase of 12.5 trillion roubles, or 90%, on the same period last year.

Banking sector demand for Bank of Russia OBR operations increased significantly in 2010. In January-September 2010, the Bank of Russia placed 1.85 trillion roubles of OBR on the primary market. The total value of outstanding OBR as of 1 October 2010, reached 825.2 billion roubles at par value. To enhance the effect of interest rate policy instruments on short-term market interest rates, the Bank of Russia decided in November 2010 to cut the maturity period of its bonds from 6 months to 3 months, and to reduce the frequency of their placement from 3 months to 2 months.

Bank of Russia sales of government securities without an obligation to repurchase were an additional instrument used by the Bank of Russia to absorb the liquidity overhang. Bank of Russia sales of federal loan bonds (OFZ) from its own portfolio totalled 22.3 billion roubles at par value in January-September 2010.

The factors responsible for the high level of banking sector liquidity in 2010 led to a substantial decline in credit institutions' demand for Bank of Russia refinancing operations compared to 2009. The average daily volume of liquidity provision operations conducted by the Bank of Russia in January-September 2010 stood at 14.1 billion roubles as against 221.4 billion roubles in the same period last year, while the total value of funds provided in the first nine months of 2010 amounted to 2.6 trillion roubles as against 40.7 trillion roubles in the same period last year.

Gross credit to banks in January-September 2010 contracted from 1.6 trillion roubles to 0.6 trillion roubles. Within the structure of gross credit, debt on repo operations decreased from 250.5 billion roubles to 0.5 billion roubles, debt on loans extended against the collateral of securities on the Bank of Russia Lombard List, against non-market assets, or against bank guarantees, contracted from 480 billion roubles to 25.2 billion roubles, and debt on unsecured loans declined from 190.4 billion roubles to 1.9 billion roubles (excluding the 44.1 billion-rouble debt on unsecured loans restructured into collateralised loans). In addition, in May 2010 Sberbank repaid a part of its debt (200 billion roubles) on subordinated loans that it had received from the Bank of Russia in the fourth quarter of 2008.

The average daily volume of repo operations conducted by the Bank of Russia in January-September 2010 stood at 10.4 billion roubles as against 136.3 billion roubles in the same period last year. The banking sector's average debt on repos at the close of business days in January-September 2010 was 27.7 billion roubles, representing a ninefold decrease from the same period of 2009.

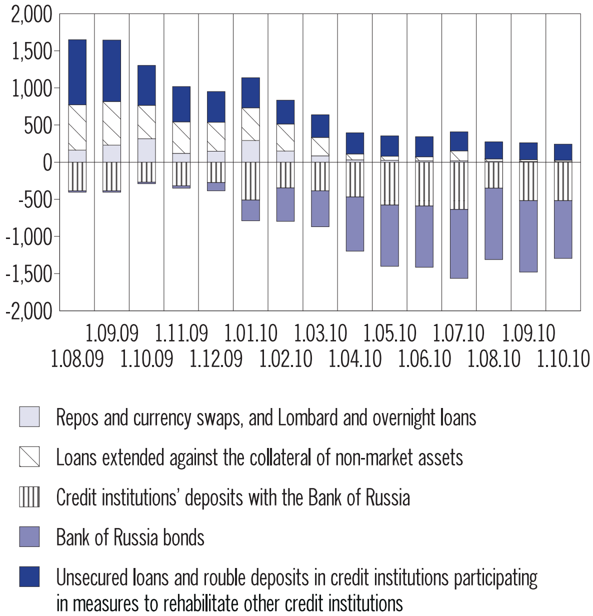
The total value of Lombard loans extended to credit institutions in the first nine months of 2010 decreased by 194.1 billion roubles, or a factor of 4.4 compared to the same period last year, reaching 57.4 billion roubles. To establish the same terms for different refinancing instruments, the Bank of Russia decided on 29 April 2010 to auction Lombard loans for seven calendar days – the term used in repo operations – rather than 14 days.

The value of Bank of Russia loans extended against the collateral of assets or guarantees at a fixed interest rate totalled 320.9 billion roubles in the first nine months of 2010, representing a decrease by a factor of 5.8, or 1,525.8 billion roubles, from the same period of 2009.

The Bank of Russia also extended overnight loans to credit institutions to close the business day. The value of these loans in the first nine months of 2010 decreased by 66.1 billion roubles, or a factor of 1.4, compared with the same period last year, and stood at 174.6 billion roubles.

The value of intraday loans extended by the Bank of Russia to maintain the liquidity of credit institutions in the payment system reached 19.9 trillion roubles in the first nine months of 2010.

Structure of Bank of Russia gross credit to credit institutions and liquidity absorption instruments (billions of roubles)*



Exclusive of subordinated loans to Sberbank and overdue debt.

This represents an increase of 3.4 trillion roubles, or 20.2%, on the same period last year.

The Bank of Russia did not conduct any currency swaps during that period, as there was no demand for them in the banking sector.

The improved situation in the banking system and the contraction of credit institutions' demand for refinancing in 2010 allowed the Bank of Russia to gradually continue to phase out the anti-crisis instruments introduced to support credit institutions and reorient them to standard monetary policy instruments.

For example, while interest rates on other monetary policy instruments were cut, the minimum interest rates on unsecured loans remained unchanged from September 2009. The Bank of Russia thereby discouraged the use of this anti-crisis refinancing mechanism. Meanwhile, the Bank of Russia continued to enable the banking sector to refinance the unsecured loans it had taken earlier by holding regular auctions and setting limits on them.

As part of measures to phase out anti-crisis instruments and reduce the terms for which liquidity was provided, the Bank of Russia in April 2010 suspended auctions of six-month and longer-term unsecured loans. In June 2010, its Board of Directors decided to halt from 1 October auctions of unsecured loans with terms longer than five weeks, and from 1 January 2011, auctions of unsecured loans of all terms.

In April 2010, the Bank of Russia also suspended 6- and 12-month repo auctions, 12-month Lombard loan auctions, and operations to extend loans to credit institutions against the collateral of assets or guarantees for terms of between 181 and 365 calendar days. In September, it decided to suspend from 1 October auctions of 6-month Lombard loans.

In 2010, the Bank of Russia used the required reserve ratios (reserve requirements), which stood at 2.5% for all categories of reservable obligations, as an instrument of direct liquidity regulation.

As of 1 October 2010, the required reserves deposited by credit institutions in discrete accounts with the Bank of Russia totalled 182.2 billion roubles, representing an increase of 30.8 billion roubles, or 20.3%, on 1 January 2010.

In January-October 2010, credit institutions actively used the averaging of required reserves. The required reserve averaging ratio, set by the Bank of Russia at 0.6, enabled credit institutions to keep in correspondent accounts (correspondent sub-accounts) and use in settlements 60% of the total value of the reserves that they were required to deposit with the Bank of Russia.

III. Macroeconomic development scenarios for 2011 and for 2012 and 2013 and balance of payments forecast

The external conditions faced by the Russian economy improved in 2010. International financial institutions and economic organisations expect the global economy to continue to grow in 2011-2013 at rates close to those expected in 2010 (not less than 4%). The recovery of external demand will ensure positive dynamics in Russian production and exports, although a more pessimistic scenario of the global economy's exit from the recession and international trade development is not ruled out.

The euro area economies that trade with Russia are expected to retain negative output gaps in the forecast period, which will help contain inflation. They will also reduce the risk of accelerated price growth in this country. In 2011, the average annual level of interest rates on money markets for instruments denominated in euros and dollars is unlikely to change dramatically. In the medium term, the difference between interest rates in Russia and other countries is expected to draw capital to the Russian economy, although the risk of capital outflow remains.

One of the key factors in the development of the Russian economy is the oil price. The Bank of Russia has therefore considered three monetary policy forecast variants for 2011-2013, of which one matches the forecast made by the Russian Government.

According to **forecast variant 1**, the Bank of Russia supposes the average annual world market price of oil to fall to $60 per barrel in 2011.

In this case, growth in real disposable money income of households in 2011 may slow to 2.5% and fixed capital investment may increase by 2.9%. GDP is expected to grow by 3.6%.

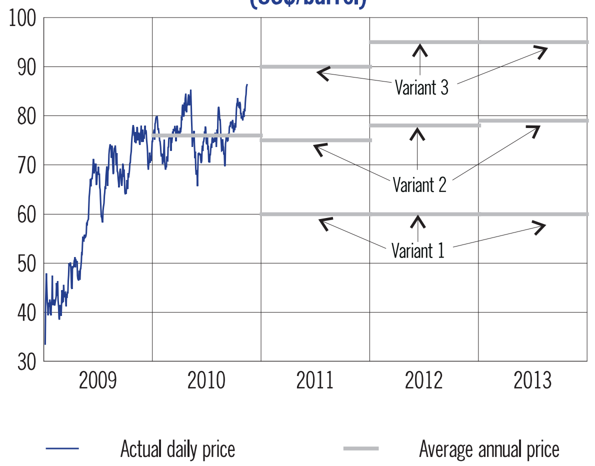
Under **forecast variant 2**, the Bank of Russia considers the government's forecast on which the draft federal budget is based. According to this forecast, the price of Russian oil in 2011 may stand at $75 per barrel.

It is also expected that economic stimulus and modernisation measures and growth in bank lending will facilitate the economic recovery. According to this forecast, real disposable money income of households may rise by 3.6% in 2011. Fixed capital investment is expected to increase by 10.0%. In this situation, GDP may grow by 4.2%.

Under **forecast variant 3**, the price of Urals crude may rise to $90 per barrel in 2011.

As export revenue increases, investor activity will rise. In 2011, fixed capital investment may grow by 11.0% and real disposable money

Urals crude prices (US$/barrel)



Russian balance of payments forecast for 2011-2013 (billions of US dollars)

	2010 (estimate)	2011			2012			2013		
	$76 per barrel	Forecast variant 1 ($60 per barrel)	Forecast variant 2 ($75 per barrel)	Forecast variant 3 ($90 per barrel)	Forecast variant 1 ($60 per barrel)	Forecast variant 2 ($78 per barrel)	Forecast variant 3 ($95 per barrel)	Forecast variant 1 ($60 per barrel)	Forecast variant 2 ($79 per barrel)	Forecast variant 3 ($95 per barrel)
Current account	**70.5**	**4.7**	**35.7**	**67.3**	**-26.0**	**17.7**	**46.8**	**-53.0**	**-21.3**	**0.8**
Balance of goods and services	118.3	49.7	86.4	121.0	19.7	69.0	101.2	-5.7	31.9	57.2
Exports of goods and services	*439.0*	*388.3*	*448.5*	*495.8*	*389.6*	*471.1*	*535.9*	*395.8*	*489.6*	*561.1*
Imports of goods and services	*-320.6*	*-338.6*	*-362.1*	*-374.8*	*-369.9*	*-402.2*	*-434.7*	*-401.4*	*-457.7*	*-503.9*
Balance of income and current transfers	-47.8	-45.0	-50.6	-53.7	-45.7	-51.3	-54.4	-47.4	-53.2	-56.4
Capital and financial account	**-20.5**	**-13.0**	**12.0**	**22.0**	**2.0**	**17.0**	**27.0**	**7.0**	**22.0**	**32.0**
Financial account (net of reserves)	**-20.6**	**-13.0**	**12.0**	**22.0**	**2.0**	**17.0**	**27.0**	**7.0**	**22.0**	**32.0**
General government and monetary authorities	*1.4*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Private sector (including net errors and omissions)	*-22.0*	*-15.0*	*10.0*	*20.0*	*0.0*	*15.0*	*25.0*	*5.0*	*20.0*	*30.0*
Change in reserve assets ("+" signifies decrease, "-" signifies increase)	**-50.0**	**8.3**	**-47.7**	**-89.3**	**24.1**	**-34.6**	**-73.8**	**46.0**	**-0.7**	**-32.8**

income of households by 4.8%. GDP may grow by 4.8% in this case.

In 2012-2013, GDP growth could stand at 3.7-5.0%, depending on the forecast variant.

Under forecast variant 1, the current account surplus is expected to contract dramatically (to $4.7 billion) and the balance of goods and services may decline significantly (to $49.7 billion). The conditions of forecast variant 2 imply a less dramatic contraction in the current account surplus (to $35.7 billion) and balance of goods and services (to $86.4 billion). Under the more favourable price situation on the world fuel and energy market envisaged in forecast variant 3, the current account surplus could reach $67.3 billion, as the positive balance of goods and services increases to $121.0 billion.

The deficit in the balance of income and current transfers could range from $45.0 billion to $53.7 billion, depending on the forecast variant.

According to variant 1, the capital and financial account in 2011 will register a deficit of $13.0 billion. Under variants 2 and 3, the accelerated growth of foreign liabilities of the Russian economy, relative to corresponding assets, may result in capital and financial account surpluses of $12.0 billion and $22.0 billion, respectively. All forecast variants envisage government foreign borrowings with a surplus of general government and monetary authorities' operations amounting to $2.0 billion. The resulting movement of private capital differs in the three forecast variants: variant 1 envisages a net capital outflow of $15.0 billion, whereas variants 2 and 3 predict a net inflow of capital ranging from $10.0 billion to $20.0 billion.

Under variant 1 the current account surplus will be not large enough to offset the financial account deficit, and this will result in an $8.3 billion contraction in reserves. Under variants 2 and 3, the current account surplus will be augmented by the inflow of funds across the financial account, and this will ensure growth in reserve assets of $47.7 billion and $89.3 billion, respectively.

The balance of payments forecast for 2012-2013 also envisages a wide range of fluctuations in the average annual price of Urals crude: between $60 and $95 per barrel.

Under variant 1, the deterioration in the terms of trade will lead to a sharp contraction of the surplus in the balance of trade in goods and services, falling to $19.7 billion in 2012, and a deficit of $5.7 billion in 2013. The deficit in the balance of income and current transfers will be an additional factor in the current account deficit, which may amount to $26.0 billion in 2012 and reach $53.0 billion in 2013. Under variant 2, the current account surplus will contract to $17.7 billion in 2012, and a current account deficit of $21.3 billion is expected in 2013. According to variant 3, the current account surplus will remain at $46.8 billion in 2012 and reach a state of virtual equilibrium in 2013 ($0.8 billion).

There will be a capital and financial account surplus in 2012 and 2013 under all three forecast variants, as corporations and banks raise foreign capital more actively. This surplus will change from the lowpoint of $2.0-7.0 billion under variant 1 to the highpoint of $27.0-32.0 billion under forecast variant 3.

Under variant 1, the net inflow of investment across the financial account will not offset the current account deficit, and as a result, reserve assets will decline by $24.1 billion in 2012 and by $46.0 billion in 2013. Under variants 2 and 3, the current account surplus and capital inflow will increase in 2012, ensuring conditions for reserves to grow by $34.6 billion and $73.8 billion, respectively. Under variant 3, conditions remain for growth in reserves (by $32.8 billion) in 2013, while variant 2 envisages their stabilisation.

IV. Monetary policy objectives and instruments in 2011 and in 2012 and 2013

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

In accordance with the scenario conditions of the Russian economy and key parameters of the social and economic development forecast of the Russian Federation for 2011 and the planning period of 2012 and 2013, the Russian Government and the Bank of Russia set a goal of reducing inflation to 6-7% in 2011, to 5-6% in 2012, and to 4.5-5.5% in 2013 (on a December-on-December basis). This headline inflation target is matched by core inflation of 5.5-6.5% in 2011, 4.5-5.5% in 2012, and 4-5% in 2013.

Monetary programme calculations for 2011-2013 have been made on the basis of money demand indicators corresponding to the inflation targets, GDP and exchange rate projections, balance of payments forecasts, and parameters of the draft federal budget law for 2011 and the planning period of 2012 and 2013.

The Russian social and economic development forecast envisages that in 2011, economic growth will be driven by both external factors connected with the favourable situation on world commodity and capital markets, and internal factors including growth in domestic demand and the gradual recovery of bank lending to the real economy. However, projections for 2011-2013 do not envisage a significant acceleration of economic growth compared to 2010. As inflation eases, this will lead to a slowing of growth in the transactions component of money demand. At the same time, the stable exchange rate of the rouble will stimulate growth in demand for the national currency as a store of value. Depending on the forecast variant, the monetary aggregate M2 could increase by 11-23% in 2011, 14-20% in 2012, and 13-17% in 2013.

The Bank of Russia has drawn up three monetary programme variants based on the key parameters of the social and economic development forecast for 2011-2013. It should be noted that the second variant is based on the macroeconomic indicators used in compiling the draft federal budget for 2011 and the planning period of 2012 and 2013. The rates of growth in the narrow monetary base, calculated taking into account the need to achieve inflation targets, and corresponding to the economic growth and exchange rate projections, may vary between 8 and 19% in 2011, 11 and 16% in 2012, and 9 and 13% in 2013, depending on the monetary programme variant.

It is assumed that if during the forecast period the balance of payments weakens and the exchange rate policy becomes more flexible, money supply will be increasingly shaped by growth in the net domestic assets (NDA) of the monetary authorities, while the role of net international reserves (NIR) will decrease. At the same time, the expected change in net credit to banks, which in 2011 will result from growth in the banking sector's free liquidity and in 2012-2013 from the reduction of liquidity, will be important for the implementation of monetary policy. It should be noted that the first variant of the programme also envisages a major increase in gross credit to banks by the end of the forecast period.

The contraction of the federal budget deficit, including the monetary sources of budget financing expected in 2011-2013, will limit the effect of budget funds on growth in money supply formed by monetary authorities. However, monetary programme calculations show that under the first social and economic development scenario the budget is likely to continue to play a major role in shaping money supply.

Under **the first variant** of the monetary programme, calculated on the assumption that the price of oil will fall significantly (to $60 per barrel), NIR could decrease by 0.2 trillion roubles in 2011, 0.7 trillion roubles in 2012, and 1.4 trillion roubles in 2013.

To ensure that growth in the monetary base matches the parameters of this programme variant, NDA should increase by 0.7 trillion roubles in 2011, 1.4 trillion roubles in 2012, and 2.1 trillion roubles in 2013.

As envisaged by the Budget and Tax Policy Guidelines for 2011 and the Plan Period of 2012 and 2013, if the price of oil falls below $75 per barrel, National Wealth Fund resources exceeding the amount stipulated in the draft federal budget may be used to cover the budget deficit. This scenario could be realised under the first variant of the programme. Meanwhile, net credit to the general government could increase by 0.9 trillion roubles both in 2011 and in 2012, and by 1.2 trillion roubles in 2013. According to programme calculations, this growth in net credit to the general government in 2011 may, taking into consideration NIR dynamics, bring about a need to reduce net credit to banks by 0.2 trillion roubles and compel the Bank of Russia to sterilise more free banking sector liquidity. However, in 2012 and 2013, under to the first variant of the programme, other sources of money supply growth will have to be mobilised: net credit to banks is expected to increase by 0.7 trillion roubles in 2012 and by 1.4 trillion roubles in 2013, owing to the reduction of free funds in the banking sector, and in 2013 owing

Monetary programme projections for 2011-2013 (billions of roubles)*

	1.01.2011 (estimate)	1.01.2012			1.01.2013			1.01.2014		
		Variant 1	Variant 2	Variant 3	Variant 1	Variant 2	Variant 3	Variant 1	Variant 2	Variant 3
Monetary base (narrow definition)	**5,922**	**6,379**	**6,838**	**7,068**	**7,050**	**7,757**	**8,224**	**7,717**	**8,641**	**9,320**
– cash in circulation (outside the Bank of Russia)	5,789	6,230	6,679	6,904	6,880	7,569	8,025	7,523	8,424	9,085
– required reserves	133	149	159	165	171	188	199	194	218	235
Net international reserves	**14,682**	**14,433**	**16,121**	**17,377**	**13,705**	**17,165**	**19,606**	**12,317**	**17,144**	**20,597**
– billions of US dollars	486	478	534	576	454	569	650	408	568	682
Net domestic assets	**-8,760**	**-8,054**	**-9,282**	**-10,309**	**-6,655**	**-9,407**	**-11,382**	**-4,599**	**-8,502**	**-11,277**
Net credit to general government	-4,683	-3,761	-4,511	-5,224	-2,869	-4,603	-6,126	-1,686	-4,693	-6,884
– net credit to federal government	-3,683	-2,661	-3,411	-4,125	-1,670	-3,403	-4,927	-386	-3,393	-5,584
– balances of consolidated budget accounts of regional governments and government extra-budgetary funds' accounts with the Bank of Russia	-1,000	-1,100	-1,100	-1,100	-1,200	-1,200	-1,200	-1,300	-1,300	-1,300
Net credit to banks	-1,400	-1,616	-2,158	-2,359	-893	-2,080	-2,277	489	-734	-983
– gross credit to banks	600	600	600	600	600	600	600	1,600	600	600
– correspondent accounts of credit institutions, bank deposits with the Bank of Russia, and other instruments used to absorb excess banking sector liquidity	-2,000	-2,216	-2,758	-2,959	-1,493	-2,680	-2,877	-1,111	-1,334	-1,583
Other net unclassified assets	-2,677	-2,677	-2,614	-2,726	-2,892	-2,724	-2,979	-3,403	-3,074	-3,409

** Programme indicators, calculated at a fixed exchange rate, are based on the official exchange rate of the rouble as of the beginning of 2010.*

to the expansion of gross credit to banks by 1.0 trillion roubles.

Under **the second variant** of the monetary programme, which envisages moderate growth in oil prices during the forecast period, the increase in NIR matching the corresponding balance of payments forecast indicators will be 1.4 trillion roubles in 2011, 1.0 trillion roubles in 2012, and fall almost to zero in 2013.

NIR growth in 2011 and 2012 will be partly offset by the contraction of NDA, which is forecast for this period at 0.5 trillion roubles and 0.1 trillion roubles, respectively, allowing for the dynamics of the monetary base estimated in line with the inflation target. However, in 2013 NDA will have to be increased by 0.9 trillion roubles to ensure growth in the monetary base to match the corresponding parameters of this programme variant.

With the reduced federal budget deficit under this programme variant, and the changed sources of financing, it is expected that the dynamics of net credit to general government will have no significant impact on NDA: net credit to the general government will expand by 0.2 trillion roubles in 2011, whereas in 2012 and 2013 it will contract by 0.1 trillion roubles each year.

Under the forecast dynamics of credit to the general government in 2011, the contraction of NDA will result from a reduction by 0.8 trillion roubles of net credit to banks. NDA growth necessary for the expansion of money supply in 2012 and 2013 will be ensured by increases of net credit to banks by 0.1 trillion roubles and 1.3 trillion roubles, respectively.

Under **the third** monetary programme **variant**, based on the assumption that oil prices will rise significantly, NIR could increase by 2.7 trillion roubles in 2011, 2.2 trillion roubles in 2012, and 1.0 trillion roubles in 2013. At the same time, taking into consideration the expected monetary base dynamics, NDA could contract by 1.5 trillion roubles in 2011 and 1.1 trillion roubles in 2012. In 2013, NDA could grow by 0.1 trillion roubles.

Taking into consideration the expected improvement in the external economic situation and more substantial GDP growth under this variant, there is reason to expect the balances of the budget accounts with the Bank of Russia to increase by more than under the second variant, and this will correspond to a contraction of net credit to the general government by 0.5 trillion roubles in 2011, 0.9 trillion roubles in 2012, and 0.8 trillion roubles in 2013. At the same time, net credit to banks may decline by about 1.0 trillion roubles in 2011 and increase slightly (by 0.1 trillion roubles) in 2012. During 2013, the NDA growth required for the expansion of money supply will be ensured by an increase of 1.3 trillion roubles in net credit to banks resulting from the contraction in free liquidity in the banking sector.

The monetary programme parameters are not rigid, and may be revised if the economic situation changes and the actual conditions deviate from the conditions assumed in compiling the economic development forecast variants. To respond effectively to changes in the monetary situation and take into account possible risks in implementing monetary policy, the Bank of Russia will use the entire set of instruments at its disposal.

IV.2. Exchange rate policy

In 2011-2013, exchange rate policy will be aimed at keeping the national currency within the acceptable range of fluctuations. The Bank of Russia will also consistently scale down its direct intervention in the exchange rate-setting process, and will prepare economic agents for work under the conditions of a floating exchange rate.

During the transition to the floating exchange rate, the Bank of Russia will continue to use the floating bi-currency basket fluctuations band, automatically changing its limits depending on currency intervention volumes. To mitigate exchange rate fluctuations not induced by fundamental factors, the Bank of Russia will continue to buy and sell foreign currency on the limits of the floating operating band, and within it. At the same time, it will not set any fixed quantitative limits on the exchange rate level of the national currency.

This approach will allow the Bank of Russia to restrain excessively sharp exchange rate fluctuations that threaten the stability of the Russian financial system, but will not obstruct the development of market-based exchange rate trends preconditioned by fundamental changes in the world economy, thereby helping market participants adapt to the floating exchange rate. The elasticity of the operating exchange rate band and its width will gradually change as the task of making the rate-setting process more flexible is fulfilled.

During the transitional period, the Bank of Russia will intervene on the domestic foreign exchange market by buying or selling foreign currency in the amounts and at the intervals established in advance. The parameters of these operations will be set taking into account key balance of payments factors, budget indicators, and the situation on the Russian money market. This arrangement will be used to mitigate the effect of external shocks on economic agents' expectations, the situation on the financial markets, and the dynamics of key monetary indicators.

The principal factors influencing the rouble rate in 2011-2013 will be the balance of foreign trade operations and the dynamics of cross-border capital flow, with the latter playing an increasingly important role. At present, the foreign trade surplus is creating conditions conducive to the strengthening of the national currency, but as the trade balance evens out, the role of this factor will decrease. At the same time, the growing influence on the exchange rate of capital flow dynamics, which depend on hard-to-predict developments on world financial markets and are extremely volatile, creates considerable uncertainty over rouble exchange rate dynamics in the medium term. In this situation, currency risk management by economic agents at all levels becomes increasingly important, and the interest rate policy pursued by the Bank of Russia starts to play an ever growing role in ensuring financial stability and attaining inflation targets.

IV.3. Monetary policy instruments and their application

One of the key medium-term objectives of the Bank of Russia is to create conditions conducive to the implementation of an effective interest rate policy. This necessitates upgrading the set of monetary policy instruments used, and a transition to a more flexible exchange rate-setting policy.

The influence of autonomous factors of liquidity creation resulting from budget flows (allowing for the assumed budget deficit) as well as operations on the domestic foreign exchange market, against the background of a relatively favourable foreign market situation, do not preclude the preservation of excess banking sector liquidity, a situation requiring the use of the liquidity absorption instruments.

To sterilise liquidity, the Bank of Russia will continue to use instruments such as OBR placements and deposits. Bank of Russia open-market operations with government bonds and other securities, conducted in compliance with federal legislation, may be used as an additional means of regulating liquidity.

The Bank of Russia will continue to upgrade the procedure and conditions for conducting deposit operations, specifically by introducing an arrangement allowing credit institutions to discharge their obligations in deposit operations by presenting Bank of Russia collection orders (agreed upon with the credit institutions), to write down funds to deposits from bank accounts of credit institutions participating in deposit operations. The Bank of Russia intends to continue to use both market liquidity sterilisation instruments such as deposit auctions, and standing facilities, such as fixed-rate deposit operations. The latter are designed to absorb the short-term liquidity of credit institutions.

As the situation on the money market returns to normal, the Bank of Russia will continue to phase out its anti-crisis instruments and resume the use of standard liquidity regulation mechanisms. However, if necessary, it will be able to resume the use of unsecured loans and other refinancing instruments that had recently been suspended.

If the situation on the money market remains stable and there are no signs of a crisis backlash, the Bank of Russia will focus on regulating short-term banking sector liquidity. In the meantime, the banking sector will be able to use, as before, both market refinancing instruments and standing facilities, interest rates on which cushion fluctuations in short-term interbank credit market rates.

To improve the effectiveness of monetary policy instruments, the Bank of Russia will continue its efforts to make refinancing operations more accessible to credit institutions. With this in mind, it may also extend the list of assets, including gold that can be used as collateral in these operations.

The Bank of Russia will continue to use the reserve requirements as a means of regulating banking sector liquidity and restraining inflation. Taking into consideration the changes in the macroeconomic situation and the state of the resource base of Russian credit institutions, it may alter or differentiate the required reserve ratios. However, the Bank of Russia does not rule out the possibility of further raising the required reserve averaging ratio, which allows credit institutions to maintain liquidity while complying with the reserve requirements.

The further development of the Bank of Russia's interest rate policy will be aimed at upgrading monetary regulation instruments, narrowing the interest rate band, and introducing a refinancing system with a single collateral pool.

When taking decisions on selecting monetary policy instruments, the Bank of Russia will bear in mind both immediate and medium-term objectives, such as creating conditions conducive to the continuous reduction of inflation and the resumption of sustainable economic growth, including creating conditions for a re-distribution of banking sector assets in favour of the real sector.

In 2011-2013, the Bank of Russia will continue to cooperate with the Ministry of Finance in areas relating to monetary policy implementation and financial market development. Specifically, a mechanism developed jointly by the Ministry of Finance and the Bank of Russia will be used to deposit temporarily free budget funds with credit institutions, thereby mitigating the effect of uneven budget flows on banking sector liquidity.

V. Addendum

V.1. Measures to be implemented by the Bank of Russia to upgrade the banking system and banking supervision in 2011 and in 2012 and 2013

To upgrade the banking system and banking supervision in 2011-2013, the Bank of Russia will focus on implementing legislatively established goals to advance the development and maintain the stability of the Russian banking sector, and to protect the interests of depositors and creditors. It will carry out this work taking into account the lessons of the world financial crisis and experience gained in overcoming its consequences in the Russian banking sector, while taking on board the approaches to increased banking regulation recommended by international organisations.

As the consequences of the financial turmoil are overcome, the banking sector will face increased competition in the most lucrative segments of the banking services market. With this situation, the consolidation process in the banking sector is expected to intensify, and new, larger banking structures will emerge, controlling a significant portion of the market. At the same time, as risk management and banking regulation are upgraded, the trend towards greater diversification of the banking sector will accelerate. As a result, risk concentration per borrower (group of related borrowers), investment, area of activity, and sector will be reduced, and the range of banking products and services based mainly on the use of information technology will expand.

The Bank of Russia will continue to upgrade merger and acquisition procedures to enable companies, including credit institutions, with varying organisational and legal statuses to participate in reorganisations. This work is aimed at improving the legal environment and increasing the capitalisation of credit institutions.

Greater competition in the banking sector and tougher soundness requirements will require changes to the bank development model: the current model of aggressive and mostly extensional development, which has a procyclic effect and generates imbalances, will have to be replaced by a more balanced and intensive development model, based – among other things – on wider use of innovations in the running of the banking business and management of banks and banking risks. The trend towards the consolidation of the banking business should become a factor stimulating these processes.

The main instrument for fulfilling tasks in banking regulation and supervision will be the development of risk-based supervision. Work to this end in banking regulation and supervision will be carried out bearing in mind the lessons of the financial crisis, and ensuring that Russia fulfils the obligations that it took on at Group of 20 summits to implement the group's decisions aimed at strengthening the stability of the banking sector and mitigating systemic risks. Certain anti-crisis measures that proved effective for the strengthening of banking sector stability will be implemented on a permanent basis.

It would be prudent to emulate internationally accepted approaches and widen the use of informed (substantive) judgement in supervision, especially when assessing the soundness of credit institutions, including risk assessment and the evaluation of the quality of management and internal control systems.

Special attention will be paid to organising supervision of credit institutions according to the principle of substance over form, in order to detect problems in credit institutions at an early stage and to take timely and appropriate corrective measures.

To accelerate and improve the quality of supervisory responses to risks taken by credit institutions and their operations that call for increased attention, the Bank of Russia will build a second tier of supervision, i.e. ensure that its head office supervisors implement additional control over systemically important credit institutions and stimulate the development of the curatorship. These measures, along with others, will be carried out in all areas of supervision (off-site supervision, inspection, licensing, and dealing with problem banks).

To receive more information on systemically important credit institutions, the Bank of Russia, bearing in mind the positive results of work done by its authorised representative in banks that have received government relief funds, intends to use this approach in the course of 'standard' supervision. This will require making amendments to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The upgrading of risk-based supervision, including consolidated supervision, calls for certain changes to laws regulating banking supervision. The following proposals are to be put forward to this end:

– defining the powers of the Bank of Russia to set requirements for risk management systems in credit institutions;

– ensuring, within the framework of applicable legislation, the development of consolidated supervision, in order to improve the quality of supervisory assessment of the economic situation of banks, banking groups and bank holdings. It is important to note that consolidated supervision does not replace individual supervision of banks, but significantly complements it;

– tightening the regulatory requirements for risk assessment in banking operations, particularly operations (transactions) conducted by banks that are most vulnerable to risk.

In the field of banking supervision, the Bank of Russia intends to improve reporting procedures used by credit institutions, especially on a consolidated basis, so as to be able to receive full information on the nature and level of risks taken and risk management procedures employed by credit institutions, which will allow the Bank of Russia to constantly monitor principal risks, such as credit risk, operational risk, market risk, liquidity risk, country risk, etc.

In addition, the planned amendments to laws on banking regulation and supervision envisage:

– creating a mechanism to assess the business reputation of credit institution managers and owners, and broadening the powers of the Bank of Russia to collect information and keep databases on persons whose actions led to violations of federal laws and harmed the financial situation of a credit institution;

– simplifying the issuance of securities and harmonising with international practice the federal laws and Bank of Russia regulations on control over the acquirers of shares (stakes) in credit institutions;

– establishing a single set of requirements for the financial soundness of banks (for the purpose of ongoing supervision and compliance with the deposit insurance system requirements) and measures of supervisory response to non-compliance with these requirements.

The Bank of Russia will continue to implement the provisions of the Basel Committee on Banking Supervision (BCBS) documents. Specifically:

– in order to implement the provisions of Pillar 1 of Basel II regarding the use of advanced credit risk measurement approaches, such as the Internal Ratings-Based (IRB) Approach, the Bank of Russia will draw up and issue documents in 2011-2013 that will regulate capital adequacy measurement methodology using the IRB approach, and establish requirements for intrabank rating systems;

– to implement the provisions of Pillar 2 Supervisory Review Process of Basel II, the Bank of Russia will issue regulations setting the minimum requirements for internal capital adequacy assessment process (ICAAP) for all kinds of risk. To legitimise this work, amendments will have to be made to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Taking on board international approaches, including those set out in the BCBS documents Strengthening the Resilience of the Banking Sector and International Framework for Liquidity Risk Measurement, Standards and Monitoring, drafted in response to the initiatives of the Group of 20 and the Financial Stability Board (FSB), the Bank of Russia will make efforts to implement these approaches, harmonising international accords with national specifics.

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

It will pay special attention to studying approaches to macroprudential supervision aimed at ensuring banking sector stability, continue to upgrade macroprudential analysis tools by calculating banking sector financial stability indicators, among other things, and posting them on the IMF Internet site, and to assess systemic risk by conducting stress tests.

Building on experience gained in implementing the Federal Law on Additional Measures to Strengthen the Stability of the Banking System in the Period up to 31 December 2011, the Bank of Russia will take part in drafting legislative decisions to allow the Deposit Insurance Agency, a state corporation hereinafter referred to as the DIA, to rehabilitate credit institutions, not only during the financial crisis, but also on a permanent basis for the purpose of maintaining the stability of the banking system and strengthening confidence in it.

Taking into consideration the experience gained by the Bank of Russia and the DIA in bankruptcy prevention, it would be prudent to further upgrade this mechanism, in order to promote the use of the most effective bank bankruptcy prevention tools and procedures. The most effective means of upgrading this mechanism is to provide more incentives to private investors to encourage them to participate in bank bankruptcy prevention, by granting the Bank of Russia the right to use a special treatment for credit institutions in which financial rehabilitation measures are being implemented by private investors without the use of government funds. It is also necessary to review the laws regulating the transfer of bank property and liabilities. In addition, the Bank of Russia will work out proposals for establishing the responsibility of persons who control banks subjected to bankruptcy prevention measures by the DIA, if the need for these measures arose as a result of these individuals' actions or inaction.

In response to the Group of 20 initiatives, and in line with the FSB Principles for Cross-border Cooperation in Crisis Management, the Bank of Russia will continue to monitor the drawing up by systemically important banks of business restructuring and additional funding plans to ensure their uninterrupted operation in emergencies.

Work will continue to upgrade legislation, with the objective of reducing the risk of abuses by credit institution managers and owners, and minimising the negative consequences of licence revocations for creditors and the banking system as a whole. To this end, the Bank of Russia will continue to issue regulations establishing a simplified procedure for the transition from compulsory liquidation of a credit institution to its bankruptcy (including requirements relating to creditors' claims), and making it possible during credit institution liquidations to quickly transfer the liquidated credit institution's liabilities and property to an operating credit institution.

The Bank of Russia will participate in drafting amendments to the Penal Code of the Russian Federation to assign criminal responsibility for making significant changes to accounting or other records and reports on the economic activities of a credit institution that distort their substance, and for reporting deliberately false or incomplete data for the purpose of concealing information on the actual financial situation of a credit institution.

The adoption of amendments to bank insolvency (bankruptcy) laws enabling futures market participants to conclude netting agreements regarding obligations in financial transactions is seen as an important measure to support the financial market and minimise the consequences of banking licence revocations for market participants.

The purpose of the inspections the Bank of Russia will conduct in 2011-2013 is to receive objective information on the financial (economic) situation of credit institutions, determine risk profiles and major risk concentrations, and identify transactions designed to conceal the actual quality of assets. Special attention will be paid to the inspection of major credit institutions of federal and regional importance that exert a significant influence on the systemic stability of the banking sector.

To identify risk on a consolidated basis and detect operations designed to conceal the actual quality of assets in credit institutions that are members of banking groups and credit institutions controlled by one group of owners, the Bank of Russia will carry out inspections simultaneously and in a coordinated manner.

To receive fuller and more credible information on the customers, borrowers and owners of banks, including information confirming the credibility of reports presented by borrowers and founders (members) of credit institutions, the Bank of Russia will arrange closer cooperation with the tax, customs, and law-enforcement authorities.

It will gradually centralise inspection by upgrading its organisational structure, in order to make inspections more effective. Specifically, it will seek to improve the effectiveness of collaboration between off-site and on-site inspection units, more precisely define their spheres of responsibility, secure inspectors' independence, and make inspection resources more manoeuvrable.

The Bank of Russia will take steps to further upgrade the banking sector's actions relating to the prevention of the legalisation (laundering) of criminally obtained incomes and the financing of terrorism, and improve the relevant rules, regulations, and methodologies used by credit institutions:

– to identify customers and beneficiaries;

– to assess the risk levels of customers and their operations;

– to detect, document, and analyse operations that arouse suspicions of being conducted for the purpose of legalising (laundering) criminally obtained incomes and/or financing terrorism.

V.2. Measures to be implemented by the Bank of Russia to improve financial markets in 2011 and in 2012 and 2013

To improve the effectiveness of the Russian financial market infrastructure and promote the development of financial market instruments, in 2011-2013 the Bank of Russia will:

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

– participate in upgrading the rules and regulations on exchange trade and clearing;

– formulate approaches to regulating the activities of central counterparties as systemically important elements of the infrastructure, for the purpose of enhancing the effectiveness of managing risks in transactions conducted with the participation of the central counterparty with the objective of maintaining financial stability;

– participate in upgrading legislation regulating depositary activities, to create a central depositary in Russia;

– participate in efforts to improve legislation regarding the definition of the precious metals account's status, necessary to create favourable conditions for operations with banking instruments using unallocated metal accounts, and to change the rules regulating the licensing and conduct of credit institutions' operations with precious metals;

– upgrade the rules and contract regulations governing repo transactions on the Russian market, analysing law-enforcement practice and participating in drafting documents that will set standard terms and conditions for repo transactions;

– cooperate with international organisations to improve their knowledge on the functioning of the Russian repo market, including the possibility of using the liquidation netting mechanism regarding repo operations;

– continue to introduce services for market participants relating to the management of collateral in repo transactions (trilateral repo) in order to optimise the use of collateral, simplify repo operations, and broaden the range of operations conducted by participants;

– continue to introduce arrangements allowing participants to provide securities on a returnable basis for the completion of settlements, in order to strengthen the stability of the financial markets and boost their liquidity;

– assist the development of the money market by improving interest rate risk management with the use of market interest rate indicators;

– collaborate with the Ministry of Finance to enable the latter to conduct operations on the stock exchange using money market instruments.

V.3. Measures to be implemented by the Bank of Russia to improve the Russian payment system in 2011 and in 2012 and 2013

During 2011-2013, the Bank of Russia will carry out measures to upgrade the Russian payment system, thereby strengthening the financial system and maintaining macroeconomic stability.

It will continue to participate in drafting a law on the national payment system and issue rules and regulations necessary for its implementation.

To fully meet the requirements of settling participants, improve the effectiveness of the national payment system, and harmonise it with international financial standards, the Bank of Russia will take part in the elaboration of a national financial message standard (based on international standard methodology ISO 20022).

To upgrade the non-cash settlement procedure, bearing in mind the requirements of credit institutions, the Bank of Russia will expand the use of direct debits[1] in settlements between credit institutions and their customers, and between credit institutions.

[1] Direct debit is a payment service to write down on a one-off or regular basis funds from the payer's account on the payee's initiative, with the payer's prior consent.

The Bank of Russia will upgrade legal regulation of retail payment services provided by credit institutions, using new advanced payment instruments. It will pay special attention to expanding the accessibility of these services, by ensuring that credit institutions use the services of communications operators and bank paying agents.

It will make efforts to create conditions conducive to wider use of payment cards and other payment instruments to pay for federal government-provided and municipal services.

The Bank of Russia will continue to promote financial literacy among retail payment services customers by providing them with information on various aspects of the services they receive, including risks.

The Bank of Russia will carry out the main measures to promote the development of its payment system in line with the Bank of Russia Payment System Development Concept for the Period up to 2015, and the Action Plan for the Creation of an International Financial Centre in the Russian Federation. In 2011, measures are to be taken to pool all regional components of the Bank of Russia payment system into a single federal component of the Bank of Russia payment system, and to centralise settlements.

The Bank of Russia will extend the list of settlement documents received from Bank of Russia payment system participants as electronic bank messages, including collection orders and payment orders.

Bank of Russia payment system participants will gain broader opportunities to convey electronically through the Bank of Russia information messages necessary for the effectuation of settlements, the management of participants' accounts with the Bank of Russia, and the implementation of deposit and credit operations with the Bank of Russia.

The banking electronic speed payment (BESP) system will be complemented by interfaces that will ensure its interaction with financial market infrastructures (the introduction of a settlement mechanism based on 'delivery versus payment' and 'payment versus payment' principles), private retail payment system operators, the centralised liquidity management system, and the S.W.I.F.T. system, as well as the Bank of Russia customer liaison system.

To monitor its payment system, the Bank of Russia will continue to develop a centralised information and analysis system that will allow it to receive all the information it needs on participants, and on developments in the Bank of Russia payment system, including information in real time.

The Bank of Russia will cooperate with the Federal Treasury to optimise the list of customers other than credit institutions, the number of accounts opened for them, and its own settlement network.

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 2011

Description of 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), aimed at specifying the requirements for credit institution executives, empowering the Bank of Russia to set reputation criteria for them, gather information, and maintain a database on credit institution managers and employees whose actions were conductive to damage inflicted on the credit institutions or violations of federal laws or Bank of Russia rules and regulations.	Q1-Q4
2. Participation in drafting amendments to certain federal laws, to replace in stipulated cases the registration of a securities issue with the issuer's notification on the results of the securities issue, and the harmonisation with international practice of federal laws and Bank of Russia regulations on control over the acquirers of shares (stakes) in credit institutions and on the shareholding level in credit institutions, for the purpose of prior agreement with the Bank of Russia.	Q1-Q4
3. Participation in drafting amendments to the Code of Administrative Offences of the Russian Federation and Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), in order to grant the Bank of Russia the right to issue regulations setting the procedure for imposing sanctions on credit institutions.	Q1-Q4
4. Participation in agreeing draft amendments to Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), aimed at granting the Bank of Russia the right to appoint staff (curators) to credit institutions that, in the opinion of the Bank of Russia, require special scrutiny, and to grant them the powers stipulated by Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and granted to the authorised representatives.	Q1-Q4
5. Drafting amendments to the Federal Law on Additional Measures to Strengthen the Stability of the Banking System in the Period up to 31 December 2011, to give this law the status of a standing act and to specify its application mechanism, and drafting amendments to the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions to upgrade liquidation procedures.	Q1-Q4
6. Participation in drafting amendments to the Federal Law on Banks and Banking Activities, the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and the Federal Law on Insurance of Household Deposits in Russian Banks, in order to establish a single set of requirements as to financial soundness of banks and supervisory responses in cases of non-compliance with these requirements.	Q1-Q4
7. Drafting amendments to the Penal Code of the Russian Federation to assign criminal responsibility for making significant changes to accounting or other records and reports on the economic activities of a credit institution that distort their substance, and for reporting deliberately false or incomplete data for the purpose of concealing information on the actual financial situation of a credit institution.	Q1-Q4
8. Stage-by-stage centralisation of Bank of Russia inspections in the North-Western, Siberian and Far Eastern Federal Districts.	Q1-Q4

Description of measures	Implementation period
9. 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), in order to specify the major aspects of consolidated supervision and to tighten information disclosure requirements for credit institutions, banking groups, and bank holdings.	Q1-Q4
Financial markets	
10. Participation in the upgrading of laws and regulations on exchange trade and clearing.	Q1-Q4
11. Setting out approaches to regulating the activities of central counterparties as systemically important infrastructure elements, in order to improve the effectiveness of risk management in transactions conducted with the participation of the central counterparty.	Q1-Q4
12. Participation in the upgrading of legislation regulating depository activities, namely the creation of a central depository in Russia.	Q1-Q4
13. Continuing to upgrade legislation for the purpose of determining the status of the precious metals account, and setting the procedure for licensing operations with precious metals and conducting these operations by credit institutions.	Q1-Q2
14. Introducing services for market participants relating to the management of collateral in repo transactions (trilateral repo).	Q1-Q4
15. Developing mechanisms in collaboration with the Ministry of Finance, enabling the latter to conduct operations on the stock exchange using money market instruments.	Q1-Q4
16. Continuing to draft amendments to certain federal laws for the purpose of introducing a liquidation netting mechanism.	Q1-Q2
Payment system	
17. Participation in drafting a law on the national payment system. Setting out Bank of Russia regulations necessary to implement the law on the national payment system.	Q1-Q4
18. Encouraging wider use of direct debit in settlements between credit institutions and their customers, and between credit institutions.	Q1-Q4
19. Developing a national financial message standard.	Q1-Q4
20. Optimising the list of Bank of Russia customers other than credit institutions, and Bank of Russia settlement network.	Q1-Q4
21. Developing a regulatory framework for: – the development of a special interface for cooperation between the BESP and S.W.I.F.T. systems in effecting settlements; – the introduction of debt collection settlements in the BESP system.	Q3