

Central Bank Moves Toward Greater Flexibility of Ruble

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The Central Bank said Wednesday that it has widened the ruble's floating exchange rate corridor, in a move seen as a cautious step toward a free-floating currency and focusing the bank squarely on inflation.

The regulator is also scaling down interventions as it allows greater ruble flexibility in a bid to edge closer to inflation targeting, First Deputy Chairman Alexei Ulyukayev said.

At a briefing at the Central Bank, Ulyukayev confirmed earlier Reuters reports citing market sources that the regulator had widened the euro-dollar basket's floating range to 4 rubles from 3 rubles.

"From today, the exchange rate will be formed in a more flexible regime," Ulyukayev said.

The change suggests new boundaries for the floating corridor at 32.90 and 36.90 rubles against the basket, although there is debate in the market about whether the previous boundaries were at 33.40-36.40 or 33.30-36.30 rubles.

Russia has gradually allowed more flexibility for the ruble, which is largely driven by oil and gas prices, as it seeks to shift the key focus of its policy to targeting inflation rather than the exchange rate in coming years.

Prime Minister Vladimir Putin's government was concerned by the ruble's sharp depreciation after the financial crisis in 2008, but has stayed largely silent on the currency since, which is broadly stable this year after losses in September.

That leaves Russia with less of the headaches around an overvalued currency afflicting China, Japan and others. Putin has set the industrial revival of Russia as a priority and some officials say keeping a lid on ruble volatility and the option of combating broader appreciation suits those goals.

The Central Bank, however, has long argued that a free float would be best.

"It is a medical fact that the Central Bank has been planning this [band widening] for a long time," said Alexander Morozov, chief economist for Russia at HSBC.

In the draft document on monetary policy published in September, the Central Bank said "the elasticity and the width of the ... corridor will gradually change in the course of ... increasing the flexibility of the exchange rate."

On Wednesday, Ulyukayev said the Central Bank was likely to widen the floating corridor further, edging closer to the inflation targeting policy.

Maxim Oreshkin, senior strategist for Russia and CIS at Credit Agricole, said the possibility of widening the corridor had been discussed at a conference of economists and Central Bank officials at the MICEX exchange Monday.

"A one-ruble widening of the floating corridor may be a next step toward a free-float regime," he said.

During the height of the crisis, officials resisted the pressure to introduce capital controls, leaving Russia as the only BRIC economy without any such limits.

In July 2009, it introduced a 3-ruble-wide floating corridor. As well as widening this to 4 rubles, Ulyukayev said this would now be shifted by 5 kopeks after \$650 million of so-called "border" interventions at each boundary, compared with the previous amount of \$700 million.

The widening of the floating corridor will reduce the need for "border" interventions, said Morozov at HSBC.

The widening of the band came as the ruble set 8-1/2 month lows versus the euro Wednesday, as imports surged, companies looked abroad for growth and investors fretted about the health of the economy after this year's severe drought.

The ruble ended the day unchanged against the dollar and inched down 0.45 percent versus the basket, bruised by uncertainty about the recently announced change in the Central Bank's forex policy.

The weakness in the ruble contrasts with the problems faced by many other emerging and developed countries at the moment, which are struggling to restrain currency appreciation.

Some officials, such as Deputy Economic Development Minister Andrei Klepach, have said Russia is not yet ready for a free float. The Central Bank has stressed that it will not abandon the possibility of interventions altogether and will reserve the right to enter the market if it deems necessary.

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