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Key Rates Unchanged, No Move Likely in '10

By The Moscow Times

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The Central Bank kept interest rates on hold Friday, as expected, and said accommodative policy could stay in place in coming months given risks to the economic recovery and a more subdued inflation outlook.

The economy is recovering from its worst recession in 15 years and is expected to grow about 4 percent this year after shrinking nearly 8 percent in 2009. But the latest data show risks remain, with still fragile domestic demand illustrated by weak September retail sales.

"The Central Bank considers it possible to retain accommodative monetary policy in coming months in order to support internal growth factors," the bank said in a statement, broadly echoing the tone from last month's meeting.

"The weakening in consumer demand and the uncertainty over the prospects of the external economic situation create additional risks for economic growth," it said.

Analysts polled by Reuters expect that the benchmark refinancing rate would not be raised from the current 7.75 percent until the start of 2011.

"The comments are very much in line with what was expected," said Yulia Tseplyayeva, chief economist for Russia and the CIS at BNP Paribas, who does not expect interest rate hikes to start until next March.

Inflation — which spiked in the summer as the worst drought in decades killed a third of the harvest — is expected to ease to 0.6 percent in October from September's seven-month high of 0.8 percent, reducing the need for near-term rate hikes.

"This signals an easing of inflation expectations," the Central Bank said.

"Inflation risks determined by monetary conditions currently remain at an acceptable level and the increase in the flexibility of the ruble exchange rate together with the planned budget deficit reduction ... may contribute to creating the conditions for reducing such risks."

The Central Bank widened the ruble floating trading band last month and scrapped a fixed exchange rate corridor. The regulator said more steps would follow as it gradually shifts toward targeting inflation rather than the currency.

"The passage on the exchange rate is effectively a repeat that the Central Bank plans to reduce its presence in the market, and thus inflation risks will be less," Tseplyayeva said.

She added that such comments tend to fuel the prevailing market trend, which at the moment is for a weaker ruble. The ruble extended losses Friday, closing in on its 2010 low against the dollar.

"In the longer term, though, I believe in a stronger ruble," Tseplyayeva said, adding that this would be supported by Russia's privatization campaign, strong oil prices and an expected resumption of capital inflows.

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