The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Interest Rates Unchanged, But Reserve Requirement Goes Up

By The Moscow Times

March 27, 2011

The Central Bank on Friday raised its minimum reserve requirement but unexpectedly left key interest rates unchanged, as it looks to steer a course between high inflation expectations and risks to economic growth.

The bank left the overnight deposit rate — seen as its most effective tool in reducing ruble liquidity — unchanged at 3 percent. Most economists had expected a 25 basis-point hike. It increased minimum reserve requirements by 100 basis points for liabilities for nonresidents and by 50 basis points on all other liabilities.

"The Central Bank has surprised again. It is unlikely that reserve requirements can be considered as a factor that can stabilize inflationary risks," said Dmitry Polevoi at ING.

"Apparently, the Central Bank has decided to take a waiting stance to see what will happen with inflation and macroeconomic data in coming weeks," he added.

The bank said in a statement: "The decision has been made because of the continued expectations of high inflation and risks to the economic growth."

It added that the instability on global financial and commodity markets could have an impact on the Russian economy.

"The trend of macroeconomic indicators is ambiguous and they have started to think that there are risks to the economy," said Alexander Morozov, chief Russia economist at HSBC.

"By not raising rates, the Central Bank is taking a risk because inflation risks — as they note themselves — remain, while given high oil prices there is a high chance that economic growth will speed up in the near future."

The pace of inflation eased in the latest week, but consumer prices have risen 3.6 percent since the start of the year, making the official 2011 target of 6 to 7 percent inflation tough to achieve.

Friday's decision follows February's more aggressive monetary tightening, when the Central Bank decided to raise key interest rates as well as increasing reserves requirements.

Most analysts polled by Reuters had expected that this time, the Central Bank would keep the benchmark refinancing rate on hold but would raise deposit rates as well as hiking reserve requirements.

Original url:
https://www.themoscowtimes.com/2011/03/27/interest-rates-unchanged-but-reserve-requirement-goes-up-a5875