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Interest Raised to Curb Inflation

By The Moscow Times

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The Central Bank unexpectedly increased its interest rates for the second time this year to cap inflation in the world's biggest energy supplier.

The Central Bank raised the refinancing rate to 8.25 percent from 8 percent. Policymakers in Moscow also increased the overnight deposit rate a quarter point to 3.25 percent and the overnight auction-based repurchase rate by the same amount to 5.5 percent. The change is effective May 3. Reserve ratios remained unchanged.

The inflation rate has been above the Central Bank's target of between 6 percent and 7 percent for this year since October, driven by rising food and fuel prices. The European Central Bank lifted interest rates this month for the first time in almost three years, while regulators in Brazil, India and China raised borrowing costs at least four times in the past year.

"The decision was made due to continued high inflation expectations, exceeding inflation guidelines for the year, and also noting the mixed effect on the Russian economy of the trends on global financial and commodities markets," the bank said in a statement on its web site

Friday.

The Central Bank had relied on currency gains and higher reserve requirements for lenders to quell inflation, seeking to avoid choking economic growth. The regulator today cited "the significant role of monetary factors in keeping up inflationary pressure."

Modernizing the economy, a priority for President Dmitry Medvedev, "practically doesn't begin" with inflation above 7 percent, Finance Minister Alexei Kudrin said April 21.

"Raising both the repo and the deposit rates sends a signal to the market that the Central Bank is focusing primarily on inflation, and is less concerned about the mixed signals in the first quarter on the recovery of domestic demand," Clemens Grafe and Anna Zadornova, economists at Goldman Sachs Group, wrote in an e-mailed note to clients. "The move also suggests that ruble strength is a lesser concern for the bank than inflation."

German Gref, chief executive at Sberbank, said Friday that the ruble is expected to strengthen 10 percent, making Russian assets a "good object for investments," according to an e-mailed statement from the country's biggest lender.

Retail sales increased 4.8 percent last month from a year earlier even as real wages unexpectedly fell for the first time in 16 months and disposable income dropped 3.4 percent.

Banks boosted lending to households in March at the fastest monthly pace since December as loans rose 2.2 percent after a 0.6 percent advance in February, Central Bank data show. Corporate loans advanced 1.3 percent last month.

"Retail trade outstripping real incomes in recent months, combined with growing lending to individuals and slower growth of retail deposits, suggest a likely drop in people's propensity to save," the Central Bank said in the statement. This "may become a factor of increasing inflation risks."

Russia raised all of its main policy rates in February, adding to a quarter percentage point increase to the deposit rate in December. The Central Bank also raised reserve requirements for banks at its first three policy meetings this year.

The regulator left the mandatory reserve level unchanged Friday to avoid triggering a "liquidity deficit" in the banking industry, Raiffeisenbank economists said by e-mail.

Money held at the Central Bank in deposit and correspondent accounts, a key indicator of liquidity, fell to 865 billion rubles ($31.6 billion), dipping below 1 trillion rubles for the first time since December, Gazprombank, the lending arm of the gas export monopoly, said Friday by e-mail.

In a sign of deteriorating liquidity, lenders Friday bid for the Central Bank's repo funds at two auctions, receiving a total of 9.9 billion rubles in the first auctions held by the regulator in four months, the Central Bank said Friday on its web site.

MosPrime, the average rate banks charge to lend money to each other overnight, hit a 5-month high of 4.5 percent Friday.

Consumer prices will probably rise 0.4 percent in April from the previous month, slower than a monthly increase of 0.6 percent in March, Sergei Voloboev, a London-based emerging markets economist at Credit Suisse Group, said in an e-mail Thursday.

The inflation rate was at 9.6 percent as of April 25, the Central Bank said. The rate fell from a 15-month high of 9.6 percent in January to 9.5 percent in February and March as the ruble rose 12 percent against the dollar this year.

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