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IMF Official Presses for Austerity

By The Moscow Times

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The International Monetary Fund urged Russia on Tuesday to tighten monetary policy to rein in inflation and improve its investment climate to put a halt to capital outflows resulting from political uncertainty.

"The Central Bank should continue tightening policy by withdrawing liquidity and raising rates. More tightening is needed to achieve the inflation target," mission chief Juha Kahkonen told reporters after an annual Article IV staff visit.

The fund forecast 2011 inflation in Russia at 8 percent, down from its previous forecast of 9.3 percent but still above the Central Bank's goal of bringing inflation down to below 7 percent by the end of the year.

The fund expects inflation to fall to 7.2 percent next year from the current reading of 9.6 percent.

The Central Bank raised its overnight deposit rate last month by a quarter-point to 3.5

percent, narrowing the interest-rate corridor whose upper boundary is formed by the refinancing rate of 8.25 percent.

Kahkonen praised the narrowing of the corridor, which should make interest-rate policy more effective, and welcomed the greater exchange-rate flexibility that has been tolerated by the Central Bank as it shifts to an inflation-targeting approach.

Higher interest rates are poised to attract capital inflows, but for now Russia is hemorrhaging billions of dollars in capital outflows. According to Central Bank data, more than $55 billion has left the country in the past eight months.

Kahkonen said political uncertainty ahead of next year's presidential election and a poor investment climate are to blame for continuing capital outflows.

But he added that outflows "are not large compared with the size of the economy."

The IMF statement also points out that accession to the WTO would improve the business climate through "increased predictability of the government's trade policies."

The key economic challenge for Russia at the moment is to leverage the ongoing commodity boom to put growth on a sustained trajectory, the IMF said.