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Klepach Is Confident of Rubles' Steadiness

By The Moscow Times

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STRASBOURG, France — Russia has no need for a tighter monetary policy, thanks to fading inflationary risks and a stronger ruble that can firm on the back of a strong current account surplus, Deputy Economy Minister Andrei Klepach said Sunday.

"We do not assume there is a need to raise rates. There are no factors [in place] for an acceleration in inflation," Klepach said on the sidelines of the Russian Economic and Financial Forum in Strasbourg.

The Central Bank will meet on interest rates on June 30 and is widely expected to leave the policy unchanged after it said last month that "an acceptable balance" between inflation and economic growth had been found.

Klepach reiterated that Russia would meet its full-year inflation target of below 7.5 percent due to a seasonal decline in prices for vegetables and fruits, unless there is another global wave of a rise in food prices.

Since the start of the year, consumer prices have risen by about 5 percent, challenging the Central Bank's more optimistic forecast for 6 percent to 7 percent inflation in 2011.

Inflation remains the main concern among Russians ahead of State Duma elections in December and the presidential election in March 2012.

The ruble has strong upside potential despite heavy net capital outflows, Klepach said.

"In the course of increasing ruble flexibility pledged by the Central Bank, and given the current account, the ruble's potential to firm is great, despite capital account dynamics," Klepach told the forum.

Boosted by rallying oil prices, the ruble has this year firmed 8 percent versus the dollar and could have gained more if not for net capital outflow of more than $50 billion in the past seven months.

Russians, apparently, are behind the leakage. Factors that could be prompting outflows are uncertainty over who will be elected president in 2012, high levels of ruble liquidity and yields lower than in recent years.

Klepach said 2011 net capital flow balance could be "slightly negative."

Russia has been enjoying a rapid recovery in oil prices toward pre-crisis inflows. It had a surplus of $31.8 billion in the first quarter.

Maintaining a solid surplus, however, will require higher revenue, which implies higher oil prices, as the stronger ruble spurs imports that eat away the surplus.

"The current account surplus ... may entirely shrink by 2014," Klepach said, adding that current policies could contribute to such a development.

"I think it poses risks. The budget policy, forex policy are inclined to support the economy's growth and do not really match each other."

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