

# Rates Left Intact as Inflation Falls

By [The Moscow Times](#)

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The Central Bank left interest rates unchanged for a third month as July inflation fell faster than economists expected and weakening global growth threatens to damp demand for the country's oil and gas exports.

The bank held its refinancing rate at 8.25 percent after increases in February and April, the Moscow-based Central Bank said Thursday in a statement on its web site. All 21 economists in a Bloomberg survey predicted the decision. The overnight auction-based repurchase rate was held at 5.5 percent and the overnight deposit rate at 3.5 percent, matching economists' expectations.

"This decision was made based on an evaluation of inflationary risks and risks to the stability of economic growth, including those from continued uncertainty on the economic situation abroad," the bank said in the statement.

Falling food costs are helping slow inflation, which the bank expects to keep within its 7 percent target for the year, the slowest since the fall of the Soviet Union in 1991.

External shocks such as the worsening debt crisis in Europe, slower-than-expected U.S. growth and tighter monetary policy in countries including China are bolstering arguments to leave borrowing costs unchanged.

Consumer prices rose 9 percent from a year earlier in July, compared with 9.4 percent the previous month, the bank said. That's less than the 9.2 percent median estimate of 18 economists surveyed by Bloomberg. Full-year inflation may be near the lower end of the government's 6.5 percent to 7.5 percent forecast, Deputy Economic Development Minister Andrei Klepach told reporters July 21.

"If the situation with consumer prices continues unchanged in August, the Central Bank may decide to lower the refinancing rate as soon as September," Natalia Orlova, chief economist at Alfa Bank in Moscow, said Thursday by telephone. "The current inflation level of 9 percent from a year earlier shows that price growth in Russia really has started falling."

Investors have scaled back bets for higher interest rates. Forward-rate agreements show a likelihood of 22 basis points, or 0.22 percentage point, of interest rate increases in the next three months, down 1 basis point since the decision, according to data compiled by Bloomberg. That matches Wednesday's close at the lowest level since April 1, 2010.

"The decision is justified to a certain extent, given the current situation on global markets, which could be summarized as global chaos," Aurelija Augulyte, an economist at Nordea Bank in Copenhagen, wrote in a note to clients.

Currencies seen by investors as havens in times of financial-market stress have been driven higher by U.S. political tension over government borrowing limits and Europe's sovereign debt crisis.

Switzerland's central bank unexpectedly cut interest rates on Wednesday and said it planned to increase the supply of francs to money markets to stem gains in this year's best-performing currency.

Central bankers in Brazil, China and India raised borrowing costs in July to tame consumer-price growth. Turkey's central bank lowered its benchmark interest rate Thursday to support growth, while economists expect the European Central Bank, the Bank of England and the Czech central bank to leave rates unchanged.

Russia's economic growth may accelerate in the final six months of the year because of rising domestic demand and a rebound in crops after droughts destroyed a third of last year's harvest, according to Klepach, who oversees macroeconomic forecasting.

Gross domestic product expanded 3.7 percent from a year earlier in the second quarter, less than the 4.1 percent recorded in the first, Klepach said

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