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Analysts Say 0.5% Rate Cut Needed

By The Moscow Times

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A worsening global outlook may pressure Russia to cut interest rates by half a percentage point this year to shield the economy, Renaissance Capital said.

"The ever-darkening global backdrop, a now-certain European recession, significant growth deterioration in the U.S. and a soft landing in China all argue for the Russian Central Bank to strike preemptively," Ivan Tchakarov, chief economist at the Moscow-based investment bank, said Tuesday in a note e-mailed to clients.

The Central Bank should reduce its refinancing rate and overnight auction-based repurchase rate by 25 basis points, or 0.25 percentage points, at a meeting Nov. 25 and by another quarter-point by the end of the year, Tchakarov said.

Russia cut the deposit rate in September and Australia, Serbia and Indonesia reduced borrowing costs this month. Central Bank Chairman Sergei Ignatyev said last week that he was "very concerned" about capital outflows that reached $64 billion through October.

The Central Bank, which left rates unchanged last month, may now see scope to decrease borrowing costs to increase the amount of cash available in the banking system, RenCap said.

"Lower rates would have the additional benefit of alleviating the high pressure in the money market, which has been driven by declining banking-sector liquidity and strong net capital outflows," Tchakarov wrote.

In addition to reducing the repo rate, the bank's policy tool closest to money-market rates, the bank should reduce the higher refinancing rate, which functions as a "signaling device" for lenders, Tchakarov said.

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