The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

No Changes Foreseen in Bank Rates

By The Moscow Times

November 24, 2011

The Central Bank is likely on Friday to leave all key interest rates unchanged in November and for the rest of the year, taking time to assess the gravity of the impact of the euro-zone crisis on banking liquidity and the oil-dependent economy overall.

A Reuters poll carried out this week showed that economists expect the bank to leave its benchmark refinancing rate at the current 8.25 percent, and the one-day repo rate, which is the effective ceiling in times of liquidity strains, at 5.25 percent.

The poll of 14 economists, however, showed that they now see the Central Bank cutting the refinancing rate, which serves as a guide for retail lending, in the first quarter of 2012 by 25 basis points, while a month ago they only saw a move in the second quarter.

"Low inflation opens the possibility for the regulator to reduce interest rates, but the economy is not doing badly enough to already require a monetary stimulus," said Kirill Tremasov, chief macroeconomist at Nomos Bank in Moscow. "But perhaps in the current situation, characterized by a worsening global economic outlook, it would be beneficial to cut rates."

Russia targets year-end inflation of below 7 percent, which is high when compared to developed economies, but it would be a post-Soviet low for the country. Recent data also show that the economy grew a solid 4.8 percent in the third quarter in gross domestic product terms.

The main message economists will be looking for in the Central Bank's statement accompanying the rate decision would be the regulator's take on the present liquidity strains that have been affecting the banking sector.

Recently, bank officials have said they are ready to double the amount of funds available via the short-term repo auctions to 2 trillion rubles ($63.44 billion) and have eased the collateral requirements for borrowing.

But some economists say the Central Bank must be bolder in its monetary policy.

"The ever-darkening global backdrop, a now-certain European recession, significant growth deterioration in the United States and a soft landing in China, all argue for the Central Bank to strike preemptively and burnish its newly crafted image of a Central Bank that has learned valuable lessons from the 2008-09 crisis," Ivan Tchakarov, an economist with Renaissance Capital, wrote in a note.

But some analysts also say the regulator has its hands tied, as it must balance the threat from global developments with the continued increase in loans to households and firms, which are growing 30 percent and 23 percent, respectively.

"Unsurprisingly, the Central Bank is getting a bit worried about this declining savings rate," Danske economists in Copenhagen wrote in a recent note.

"Thus, we are not expecting lower rates from Russia despite easing inflation and increasing expectations on rate cuts in the rest of Europe."