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Confidence in Euro Buoys Rate Forecast

By The Moscow Times

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Shuvalov spoke during Thursday's session of the World Economic Forum. **Arnd Wiegmann**

DAVOS, Switzerland — The Central Bank is unlikely to cut interest rates in the near term and will find it difficult to meet its 5 to 6 percent inflation target in the second half of this year, a senior official said.

First Deputy Chairman Alexei Ulyukayev also told reporters in Davos that the bank did not view a breakup of the euro zone as a realistic scenario and was not considering a significant rebalancing of its reserves, the world's third largest.

The Central Bank is, however, continuing to diversify its foreign currency holdings and may begin buying Australian dollars from early February, he said.

Russia's current inflation rate, at a post-Soviet low of 4.7 percent, is "excellent" and may fall slightly in the early part of the year, but this results from the one-off impact of delays to utility price hikes.

Capping inflation at 6 percent this year, compared with 6.1 percent in 2011, will be more difficult because the delayed utility price hikes kick in at mid-year, Ulyukayev said.

“All of this will in the third and fourth quarters create strong inflationary pressure, and we will have to work and be very careful,” Ulyukayev said in remarks at the World Economic Forum.

Ulyukayev forecast that the consumer price index would rise by between 0.6 percent and 0.7 percent in January.

Central Bank policymakers are due to meet in early February to review interest rate policy against the backdrop of a slowing economy and high capital outflows from Russia, resulting in large part from political uncertainty.

Net capital outflows totaled $84 billion in 2011, accelerating toward the end of the year on the euro-zone credit crunch and investor concern over street protests against alleged ballot fraud in the Dec. 4 parliamentary elections.

Asked whether the Central Bank would ease interest rates, Ulyukayev said that “if inflation risks become less of a concern and risks to economic growth increase, then we will.”

“But for now I don’t really see this situation,” he added.

The Central Bank effectively tightened policy going into the end of 2011 by limiting access to one-day repo funds at 5.25 percent, forcing banks to raise funds via fixed-rate repos that charge interest of 6.25 percent.

The Central Bank, which holds more than two-fifths of its half a trillion dollars in euro-zone government bonds, does not expect the currency bloc to break up because of its sovereign debt crisis.

“The stress tests that we are conducting are oriented toward realistic scenarios, such as a European recession or a significant fall in the [euro] exchange rate,” Ulyukayev said. “But it does not consider a breakup of the euro zone or the rejection of the euro as a full-fledged currency.”

The Central Bank said in its 2010 annual report that its foreign reserves consisted of 45 percent U.S. dollars, 43 percent euros, 9 percent British pounds and modest holdings of Japanese yen and Canadian dollars.

The regulator has completed preparations for launching operations in Australian dollars in February, possibly at the beginning of the month, Ulyukayev said.

“We don’t intend to significantly change (the structure of Russia’s reserves). They are in principle appropriate,” he said.

“We would like to continue work on diversifying our currency portfolio, but there are, of course, limitations: low liquidity on the markets for other currencies,” he said.

The Russian delegation in Davos includes First Deputy Prime Minister Igor Shuvalov, Economic Development Minister Elvira Nabiullina and First Deputy Chairman of the Central Bank Alexei Ulyukayev.

Mayor Sergei Sobyanin will head the Moscow delegation and be accompanied by Andrei Sharonov, deputy mayor on economic policy, and Sergei Cheremin, the city's head of international and external economic relations, RIA-Novosti reported this week.

Businessmen and bankers bring the number of Russian attendees to 80, making Russia's delegation the fifth-largest, according to The Telegraph.

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