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Liquidity Murky, Rates Stable

By Howard Amos

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The Central Bank held back from cutting interest rates Friday and again stressed its commitment to fighting inflation that is at a record low, ahead of the presidential election in March.

The one-day repo auction rate remains at 6.25 percent, the refinancing rate at 8 percent and the one-day deposit rate at 4 percent. "We have taken the most convenient decision," First Deputy Chairman of the Central Bank Alexei Ulyukayev said at an investment forum. "We have decided to do nothing."

The Central Bank said it would ensure a balance between controlling inflation and growth risks. Rates were cut in December in line with other emerging economies as global growth appeared to be threatened by the debt crisis in Europe.

Inflation was at 4.1 percent as of Jan. 30, according to a statement from the Central Bank, and the aim is to keep the year's figure between 5 percent and 6 percent. Inflation in 2011 was 6.1 percent.

But Ulyukayev said it would be hard to keep inflation below 6 percent in 2012. Utility tariff hikes have been delayed until after the March 4 presidential election. The International Monetary Fund predicted on Jan. 26 that the 2012 inflation figure would be 6.4 percent.

The Central Bank is also resisting calls from the country's lending giants, VTB and Sberbank, to address what they characterize as a dearth of liquidity in the financial sector.

U.S. investment bank Goldman Sachs identified the possible inability "of the [Central Bank] to stick to its monetary policy strategy against opposition from Russia's large state-owned banks" as a key threat to its bullish view on the ruble last month. "With the [Central Bank] not even being legally independent," the bank wrote, "this risk is real."

Both VTB's Andrei Kostin and Sberbank's German Gref have said there is a lack of liquidity. Their banks are expanding their loan books at a faster rate than the growth of deposits, increasing funding costs.

Not all banks, however, concur with the country's biggest lenders. "[State-owned banks] always cry that the Central Bank needs to increase liquidity," chairman of MDM Bank Oleg Vyugin told The Moscow Times on Friday. "But in actual fact the situation with liquidity is fine."

"If a bank does not know how to manage liquidity, then it will say the Central Bank is working badly," he said.

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