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Central Bank Widens Ruble Trading Corridor

By The Moscow Times

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The Central Bank widened the ruble's trading corridor for the first time this year as policymakers loosen controls and shift to targeting inflation.

The bank expanded the band in which it allows the ruble to trade against its target dollar-euro basket from 6 rubles to 7 rubles, according to a statement published Tuesday.

It also changed the volume of currency interventions required to shift the floating band, reducing it to $450 million from $500 million.

The changes took effect Tuesday.

"Increasing the potential flexibility of the exchange rate through the measures taken will help increase the effectiveness of interest rate policy used by the Central Bank to provide price stability," the regulator said in the statement, issued after the close of ruble trading.

The Central Bank, which plans to complete a transition to targeting inflation in 2014, twice widened the trading band last year, each time by a ruble, while reducing the cumulative amount of interventions needed to shift the corridor.

The currency plunged in offshore trading after the announcement, weakening 0.8 percent to 32.89 per dollar as of 7:17 p.m. in Moscow.

The ruble's corridor was widened to between 31.65 and 38.65 versus the basket, which remains made up of 55 percent dollars and 45 percent euros, the regulator said in the statement.

That's 50 kopeks wider at each end than where the boundaries were at the end of June. The currency fell 0.1 percent to 32.755 per dollar at the 7 p.m. close of trading in Moscow.

The move will lead to sharper declines in the currency in the event of a market rout similar to the ruble's 12 percent drop against the dollar in May, said Maxim Oreshkin, chief economist at VTB Capital in Moscow.

"If oil comes once again well below $100 per barrel, to get the same amount of foreign-currency interventions from the Central Bank the ruble should be weaker on average, under the new rules," Oreshkin said by e-mail.

Central Bank First Deputy Chairman Alexei Ulyukayev said in an interview with Izvestia this month that the bank would "gradually widen the boundaries" of the corridor as it shifts toward targeting inflation instead of the exchange rate.

"Ideally, the borders will disappear altogether. There will come a moment when they disappear," Ulyukayev told the newspaper. "In two years, we should complete the transition to inflation targeting, and it would be right to fulfill that idea by then."

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