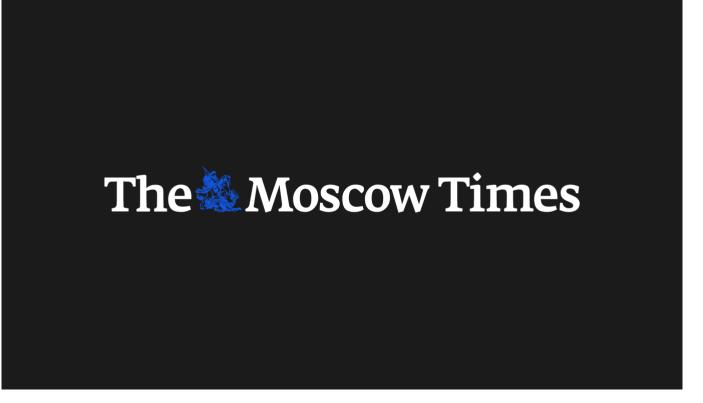


Klepach Says Economy Weakened by Monetary Tightening

By The Moscow Times

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The Economic Development Ministry on Friday blamed the Central Bank's monetarytightening policy implemented in September for the economic slowdown seen last month.

The country's gross domestic product grew 2.5 percent in annual terms in September, compared with 2.8 percent seen in August, Deputy Economic Development Minister Andrei Klepach told a briefing.

The expansion is slower than in other emerging markets, such as China and India, and analysts see it as below Russia's potential given oil prices consistently above \$110 per barrel.

Some officials and economists, including former longtime Finance Minister Alexei Kudrin, call 3 percent GDP growth stagnation.

"One of the factors that contributed to the slowdown of economic growth and investment

activity was a sharp reduction in loan growth to the nonfinancial sector and a rise in the cost of credit, which is connected to lending risks and to the increase in interest rates by the Central Bank," Klepach said.

The Central Bank left all key interest rates unchanged at its meeting in October but hiked them by 25 basis points across the board in September to combat inflationary expectations over risks to GDP.

"In our opinion, the increase in interest rates is not itself strongly justified, because it does not have a deterring effect on inflation," Klepach said. "Inflation is mainly driven by factors beyond the control of the Central Bank, and monetary policy and the impact on the real sector have been negative."

Annual inflation ran at 6.6 percent in September, above the Central Bank's 2012 target of below 6 percent.

Klepach, who was the first government official to warn that the country was entering a recession in the aftermath of the 2007-08 financial crisis, sounded no more optimistic Friday.

The Economic Development Ministry forecasts growth at around 3.5 percent this year, but Klepach said that GDP expanded by a mere 2.8 percent in the third quarter — a significant slowdown from the 4.0 percent seen in April to June.

The minister pointed to a decrease in capital investment by Russian companies, which led to a decline in construction activity and a stagnation in imports.

The real economy has been suffering from underinvestment, a result of the harsher monetary policy, Klepach said.

Adjusted for seasonal factors, capital investment by Russian companies fell 0.3 percent in September month on month, he added.

Official data from the State Statistics Service this week showed that in annual terms, investment fell 1.3 percent last month.

Earlier this week, Neil Shearing and Liza Ermolenko, economists at Capital Economics in London, called the annual decline in investment the most striking figure in the overall data representing Russia's economic activity last month.

"Putting this together with the data over the preceding months, it is obvious that investment activity has ground to a halt," the economists wrote in a research note. "This is particularly bad news given Russia's huge investment needs."

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