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Central Bank Eyes 5-6% Inflation Rate in Q2

By The Moscow Times

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Russian financial conditions and monetary policy are neutral and inflation could fall within the Central Bank's target range of 5 to 6 percent in the second quarter this year, a senior central banker said Wednesday.

First deputy chairman Alexei Ulyukayev made the comments at a presentation of the Central Bank's first quarterly monetary policy report, whose publication coincided with a spike in annual inflation in January to 7.1 percent.

"We consider the monetary gap — it is neutral," Ulyukayev told reporters. "We don't see a significant gap between potential growth and actual growth. In this sense we consider monetary policy as neutral considering the risks."

The Central Bank is stepping up its communication of the rationale for keeping key interest rates on hold since last September, despite calls from government leaders for monetary easing to revive flagging growth.

Hinting at a possible compromise, Ulyukayev said the Central Bank would discuss bringing its 8.25 percent refinancing rate, which is largely symbolic, closer into line with its main policy rates.

The Central Bank, which next reviews policy Feb. 12, is expected by economists to keep its main lending rate — its 5.5 percent minimum one-day repo rate — on hold.

The Central Bank has continued to sound hawkish on inflation, but the growth versus inflation dilemma could become less pressing, Ulyukayev suggested. He said that inflation was close to its peak and would enter a downtrend in March.

Annual price growth could fall within the Central Bank's 5 to 6 percent target range in the second quarter, he said — diverging from a forecast in the Central Bank's report that inflation would be on target in the second half of the year.

Ulyukayev, a leading contender to replace outgoing chairman Sergei Ignatyev in June, also said policy makers would propose widening their inflation target to 2 percentage points from the one-point range it currently uses.

The Central Bank is seeking to complete a shift towards western-style inflation targeting, away from a focus on the exchange rate, a policy approach that puts a premium on steering inflation expectations and fine-tuning interest rates.

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