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Central Bank Holds All Rates, Warns on Inflation

By The Moscow Times

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The Central Bank left all its policy rates on hold at its monthly meeting Tuesday, resisting political pressure to ease policy and warning that inflation would stay above target for an extended period.

Analysts had expected the bank to hold rates after inflation rose above 7 percent in January, feeding doubts about its chances of achieving its 5 to 6 percent target range for 2013. The ruble continued to strengthen slightly to 34.74 against a euro-dollar basket after the announcement.

"There is a slight lurch in the direction of emphasizing inflation over growth risks, which flies in the face of mounting political pressure to ease monetary policy," said Ivan Tchakarov, chief Russia economist at Renaissance Capital.

The Central Bank kept the one-day auction repo rate unchanged at 5.5 percent, while the fixed one-day repo rate, a de facto ceiling for the money market, remains at 6.5 percent.

The overnight deposit rate, a floor for interbank rates, was left at 4.5 percent. The refinancing rate, the cost of overnight loans from the Central Bank, was held at 8.25 percent.

In a statement, the Central Bank said it expected inflation to exceed its target range through the first half of 2013, which raised inflationary risks by reinforcing expectations of higher prices.

"The statement is a bit more hawkish than the previous one (in January)," said Alexei Pogorelov, economist at Credit Suisse.

The latest inflation forecast is more pessimistic than a prediction last week by Alexei Ulyukayev, the bank's First Deputy Chairman, that inflation would be back on target by the end of the second quarter.

The Central Bank was relatively upbeat on the state of the real economy, acknowledging a growth slowdown but playing down its gravity.

It said that economic output "remains close to its potential", while risks of an economic slowdown connected with a tightening of monetary conditions "are considered minor".

This relaxed view contrasts with concerns expressed by government officials, among them President Vladimir Putin, that high interest rates are stifling growth.

Economists, too, are divided on whether the central bank's tough policy stance is striking the right balance.

"The Central Bank is right when it notes that in current conditions a softening of policy wouldn't stimulate growth, but would stoke inflation," said Alexander Morozov, chief Russia economist at HSBC.

While leaving rates on hold, the central bank tweaked its minimum reserve requirements, in effect leveling the playing field for foreign and domestic investors putting money to work in Russia.

It brought into line the reserve requirements on liabilities to residents and non-residents, with a unified rate of 4.25 percent. Previously the rate was 4 percent for resident liabilities and 5.5 percent for non-resident ones.

The central bank said the change reflected a reduced need to regulate capital flows, as the ruble floats more freely. It described the measure as neutral for the banking sector and monetary policy.

"It is linked to the liberalization of the market and a more equal access for all investors," said Pogorelov from Credit Suisse. "The share of liabilities in rubles is much higher, so unifying the rate is neutral in terms of liquidity.

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