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Central Bank Lowers Some Rates

By Alexander Panin

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The Central Bank announced on Tuesday that it would leave its main rates unchanged but was lowering rates for longer-term refinancing operations. Economists say this will not have a big impact on the financial market but is an indicator of a possible downward trend of rates in the future.

The regulator cut 3- to 12-month rates on loans under non-market collateral by 25 basis points, as well as lombard and repo rates for the same period. Other key policy rates remain unchanged.

In a statement, the bank noted that the decision was made after evaluating inflation risks and the opportunities for economic growth. According to the bank report, inflation is above the target range and as of March 25 was at 7.2 percent. Macroeconomic indicators in February showed that the economy was slowing down. Investments in fixed assets decreased, as did industrial production and sales of consumer products. At the same time, low unemployment rates and lending growth continued to support domestic demand.

Economists say that this will not have a major impact on the financial market but is an indicator of possible rate cuts in the future.

Although the Central Bank's decision to lower some rates will make it a little bit cheaper for banks to attract funds, its importance is in the sheer fact of its appearance, said Alexander Morozov, HSBC chief economist for Russia & CIS.

"The goal was to send a signal. It is to show that the Central Bank is concerned with higher risks for economic growth in the country. If the situation does not improve it will be ready to start lowering the main rates," Morozov said.

A research note from Capital Economics echoes that conclusion. "As such, interest rates are likely to be lowered over the coming months, and we are sticking to our forecast for a total of 75 basis points of cuts to key rates by the end of this year. In terms of timing, the first move could come at June's policy meeting," wrote emerging markets economist Liza Yermolenko.

Alfa Bank chief economist Natalya Orlova is convinced that the regulator's decision is a move to keep the wolves fed and the sheep safe.

"It was an optimal decision. If they lowered all the rates it would probably have caused questions of whether the bank is truly independent. What was done looks like a nod to the government because several rates, although not the main ones, were lowered. And at the same time this way the regulator expresses concern with inflation and saves face," Orlova said.

"If the GDP dynamics in March are in the red zone, I will agree that the key rates could be lowered at the next Central Bank meeting. But the fact that the current rates were not reduced significantly indicates that, possibly, the figures for March will not be that bad," she added.

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