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Secondary Central Bank Rates Go Down

By The Moscow Times

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The Central Bank held its main policy rates on Wednesday, while cutting its secondary lending rates by a quarter point, as it sought to strike a balance between reviving growth and containing inflation.

The regulator has come under political pressure to cut rates as economic growth has slowed significantly.

However, the Central Bank has argued that above-target inflation must first be on a sustainable downward trend.

Analysts said the decision to hold short-term rates at which most banks secure refinancing would fuel criticism that the regulator is doing to little to revive economic growth that slowed in the first quarter to 1 percent.

“We do not expect this measure to calm the wave of criticism of the Central Bank as ruble liquidity in longer maturities is insufficient to make longer-term rates really important,” said

Yulia Tsepliaeva, economist at BNP Paribas.

The country's largest commercial bank, state-controlled Sberbank , said however that it would cut its lending and deposit rates, cutting the cost of three- to five-year business loans by 1.3-1.4 percent.

"This is an act of macroeconomic importance," Sberbank's Deputy CEO Bella Zlatkis said.

"We want to lend a helping hand to develop Russian business." Sberbank accounts for a third of total Russian bank lending," he added.

In a statement, the Central Bank pointed to persistent risks of an economic slowdown — in contrast to last month when it cited "increasing" risks to growth — while reiterating that expectations of high inflation could become entrenched.

The regulator said it expected inflation to fall within its target range of 5-6 percent in the second half of 2013 from 7.2 percent as of May 13, a trajectory that analysts expect could open the way to a cut in its main rates next month.

The bank left its fixed one-day repo rate — a ceiling for the money market as banks contend with tightening liquidity — at 6.5 percent and kept the one-day repo rate at 5.5 percent.

The more symbolic refinancing rate stays at 8.25 percent.

The one-day deposit rate, a floor for the market when liquidity is abundant, was left at 4.5 percent. Lending rates on maturities of three months or more were cut by a quarter point, repeating a similar move made in April.

"The cut in the interest rates on operations to provide longer-term liquidity … will contribute to strengthening the interest rate channel of monetary policy transmission," the Central Bank said in its statement.

Ivan Tchakarov, chief Russia economist at Renaissance Capital, described the cut in term rates as "a step in the right direction."

"We think that this will finally be followed by a 25 basis-point rate cut in the other key policy rates … in June," Tchakarov commented.

The Central Bank was "trying to thread a middle ground between staying focused on inflation as a key objective and recognizing the potential for anticipated inflation to fall in the future amid persistent economic fragility."

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