

Central Bank Under New Chairman Expected to Hold Rates

By [The Moscow Times](#)

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The Central Bank is likely to keep interest rates on hold Friday but signal that it is ready to loosen policy to shore up the flagging economy, a media poll forecast.

The meeting will be the first under new Central Bank chief Elvira Nabiullina, who was previously President Vladimir Putin's chief economic adviser.

She has pledged continuity following the resignation of inflation-fighting chairman Sergei Ignatyev, who ran the bank for 11 years, but is under pressure to adopt a more pro-growth stance with the economy growing at the slowest pace in four years.

Seven economists out of 12 polled Wednesday expected the Central Bank to keep the one-day repo rate at 5.5 percent Friday.

"This will be a transition month to more dovish rhetoric," said Dmitry Savchenko, an analyst

at Nordea bank. "But they may cut longer-term rates and issue a very dovish statement."

The Central Bank last narrowed the interest-rate corridor between lending and deposit rates to 100 basis points in September 2011. It has since then raised key rates once — last September — by 25 basis points.

President Putin has ordered the government to ensure the flow of more affordable credit to the real economy. The average one-year lending rate for business edged down to 9.9 percent in May from 10.2 in April.

Monetary policy could hit the ruble hard. The currency is already down 5 percent against the dollar since the end of April, as emerging market currencies have been battered by expectations the U.S. Federal Reserve will phase out its stimulus program, which has boosted the dollar.

Inflation fell in June, dropping below 7 percent for the first time since December and some players in the local bond market have speculated on a rate cut this week.

"The market is currently pricing in 25 to 50 basis points of rate cuts in the next 12 months. Therefore, if the CBR delivers rate cuts, it would spur rate sellers in the market," analysts at VTB Capital said in a note.

In addition to Ignatyev, the Central Bank's policymaking board has lost another strong anti-inflation advocate — first deputy chairman Alexei Ulyukayev, who was recently appointed economy minister.

"The CBR board has been reshuffled and the remaining nine members, probably more inclined towards monetary easing, will vote," said Yulia Tsepliaeva, an economist at BNP Paribas.

"The Central Bank will have to slacken the reins," Tsepliaeva said, adding that slowing inflation had cleared the way for lower short-term rates already on Friday.

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