

Central Bank Lending Auction Injects \$10Bln into Banking System

By [The Moscow Times](#)

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The Central Bank drew modest demand at a one-year lending auction earlier this week, boosting expectations of impending cuts in main policy rates to shore up the slowing economy.

The auction of one-year loans secured against nonmarket assets and guarantees was the first under a new mechanism for long-term bank funding announced earlier this month.

The bank injected 306.8 billion rubles (\$9.34 billion) of one-year funds into the banking system at a cut-off rate of 5.75 percent. It had offered up to 500 billion rubles.

"[Demand] was lower than the market expected. I think the next step is cutting current policy rates," said Alexei Pogorelov, an economist at Credit Suisse.

Despite pressure from the Kremlin to cut rates to boost economic growth, the Central Bank

left its main policy rate, the one-day minimum auction repo rate, at 5.5 percent in July, when it also announced the new facility for lending to banks.

The economy grew at the slowest pace in four years in the first quarter, hit by weaker exports and slow investment.

The new mechanism is aimed at improving the link between the short-term interest rates set by the Central Bank and longer-term borrowing rates in the wider economy.

It has been seen by some analysts as a key way for the Central Bank to ease monetary conditions and so encourage bank lending in order to boost lackluster growth.

But the Central Bank has played down the facility's likely impact, arguing that the implications for money markets will be broadly neutral. The relatively modest demand at the auction bears out the Central Bank's position.

"The new tool alone won't likely drive the cost of corporate borrowings significantly lower especially under deteriorating corporate financial stance," Dmitry Polevoi, an analyst at ING Eurasia bank said in a note following the auction.

"The [Central Bank] would need to cut key rates as well to accomplish the task of lowering borrowing costs in the economy."

Analysts did not rule out technical factors as a reason for low demand during the auction.

Separately, the Central Bank injected 356 billion rubles (\$10.8 billion) at a repo auction on Monday, at an average rate of 5.55 percent.

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