The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Central Bank Downgrades Growth Forecast

By The Moscow Times

August 14, 2013

The economy could grow just 2 percent this year, the Central Bank said Tuesday, and the economic development minister called for the inflation target to be broadened, which would give more scope to ease interest rates to support growth.

The Central Bank said gross domestic product was likely to expand at its slowest pace in four years.

The Russian economy grew by only 1.2 percent year on year in the second quarter, falling short of economists' consensus expectation of a 1.9 percent rise, and analysts and some officials have started to compare the situation to a recession.

Prices continue to rise strongly, however, making it difficult for the Central Bank — whose mandate prioritizes the management of inflation — to lower borrowing costs.

The combination of feeble growth and high inflation is also problematic for President Vladimir Putin, who has faced growing protests in big cities over corruption and lack of political competition. Polls show Putin still has more than 50 percent support nationwide, however.

The Central Bank said in a document Tuesday that economic growth could slow to about 2 percent in 2013, less than the official forecast of 2.4 percent. The economy grew 3.4 percent last year.

Now led by Elvira Nabiullina, a former economic development minister and chief economic aide to Putin, the Central Bank kept interest rates on hold last week, disappointing some analysts who had expected a cut to revive economic growth.

It has said it would start cutting rates when inflation is back within the target corridor of 5 to 6 percent, which had been expected in the second half of 2013.

Annual inflation in the year to date was at 6.5 percent as of Aug. 5, however, and the Central Bank warned on Tuesday that inflation might not reach the target level if food prices continue to rise.

Separately, the economic development minister said he favored broadening the inflation goal for next year, supporting a Central Bank proposal to introduce a corridor of 1.5 percent on either side of the 4.5 percent target.

The measure would give the bank greater flexibility in managing monetary policy, notably if the need arose to ease interest rates to boost flagging economic growth.

"There is no official decision on that yet ... but I think it is a rational proposal and I'm inclined to support it," Alexei Ulyukayev said about the corridor.

A decision is expected in September, the minister told journalists during a flight to the Azeri capital Baku as part of a delegation headed by Putin.

In the document published Tuesday, the Central Bank described its monetary policy as "moderately tough" but said it was not to blame for sluggish growth.

"Results of monetary analysis do not give clear grounds to consider monetary factors as the main reason for the current slowdown in economic activity," the bank said, adding that its decisions are influenced by inflation, which is above target.

Among factors affecting economic growth, the Central Bank highlighted low investment. Capital investment by Russian companies fell by 3.7 percent in June year on year, undershooting the forecast of a 0.1 percent rise.

In 2014, the Central Bank expects the economy to improve although it did not give a growth forecast.

Original url:
https://www.themoscowtimes.com/2013/08/14/central-bank-downgrades-growth-forecast-a26767