

Central Bank Holds Rates, Tweaks Policy

By [The Moscow Times](#)

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The Central Bank resisted pressure to cut policy rates to boost the sluggish economy on Friday and overhauled its monetary policy tool kit, emphasizing its role in fighting inflation.

New head of the financial regulator, Elvira Nabiullina, told a briefing that policy rates had been left on hold because inflation remained above the bank's target and played down expectations of rate cuts next month as well.

"Considering current trends, if they remain unchanged, then the likelihood of keeping rates on hold is high," said Nabiullina, who has proved less inclined to prioritize growth over inflation than many had expected.

Nabiullina is a former aide to President Vladimir Putin, whose decision this week to freeze all regulated utility prices next year was seen as giving the Central Bank more scope to lift economic growth from its slowest in four years, below 2 percent.

Before the decision, analysts had been almost evenly split over whether the bank would cut

rates this month or leave them on hold, with most expecting cuts either today or next month.

But Nabiullina, who took the helm at the Central Bank in June, said for the time being she was most concerned about inflation expectations among households and businesses.

The bank left its main policy rate, the one-day auction repo rate, unchanged at 5.5 percent, but changed rates on some other operations to bring them closer.

"Inflationary expectations are stable and are not increasing, but they remain for now at a high level. Our task is to lower inflationary expectations," Nabiullina said.

Nabiullina held a briefing flanked by her new first deputy, Ksenia Yudayeva, who organized Russia's G20 summit, and Sergei Shvetsov, who heads the Central Bank's new markets regulator.

"A reduction in rates is hardly likely until the end of the year," said Natalia Orlova, an economist at Alfa Bank. "The Central Bank will wait for the moment when inflation has fallen to 6 percent."

Inflation, at 6.3 percent as of Sept. 9, was still above the 5 to 6 percent official target, but the Central Bank's statement highlighted muted demand, an output gap and a good harvest as exerting downward pressures.

In an updated three-year monetary policy strategy also published Friday, the regulator reiterated that lowering inflation was its central policy goal.

Instead of bending to pressure to cut rates, the bank focused on strengthening the influence of its policy rates over market borrowing costs.

Nabiullina described the steps as "important but planned" as part of a long-term shift toward formal inflation targeting.

The Central Bank said it was making its one-week auction repo rate, presently 5.5 percent, its main policy rate from Sept. 16.

Previously, the one-day repo rate, also currently at 5.5 percent, was seen as the bank's de facto key policy rate, although the rates on a range of Central Bank operations were also treated as policy rates.

Economists welcomed the development as a step toward credible inflation targeting, in which the central bank relies mainly on interest rates rather than the ruble's exchange rate to manage the economy.

"The main thing they're trying to do is to tie market rates to policy rates. So far the link is very weak," said Clemens Grafe, chief Russia economist at Goldman Sachs.

"Ultimately, it's not the policy rate that affects the economy, it's the market rate. And if the market rate is not linked to the policy rate, it's not really clear what you do when you move the policy rate."

New auctions for three-month funds should also reinforce this push. The minimum spread over the main policy rate on the auction of floating-rate funds will be 25 basis points.

The Central Bank left other rates on hold, with the overnight deposit rate at 4.5 percent and the fixed one-day repo rate at 6.5 percent.

It cut its overnight rate for loans against non-marketable collateral, now divorced from the refinancing rate, to 6.5 percent from 8.25 percent. It raised its one-week deposit rate to 5.5 percent, in line with the one-week auction repo rate.

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