

Central Bank Battling Inflation, Keeps Rates on Hold

By [The Moscow Times](#)

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The bank's headquarters on Neglinnaya Street in Moscow. **Sergei Porter**

The Central Bank left its key interest rate on hold at its monthly meeting on Friday, maintaining its campaign against stubbornly high inflation even as the economy suffers its weakest growth in four years.

The bank said it expects inflation to fall in the first half of 2014 but not to reach its 5 percent target until the second half. Accordingly, it held the benchmark one-week minimum auction repo rate at 5.5 percent, leaving the key policy rate unchanged for the 15th month in a row.

"The Central Bank will be very determined, in our view, to meet its ambitious 2014 inflation objective," Ivan Tchakarov, an economist at Citi in Moscow, said. "Hence, there is a risk of a smaller cut than expected by us and the market."

Economists polled by Reuters at the end of November had forecast the regulator would only

cut rates by a quarter point in the first quarter and then ease further in the second, as inflation begins to slow.

Under the new governor, Elvira Nabiullina, the Central Bank has made clear that it wants to bring down the inflation expectations of households and businesses before easing policy, despite a weak economy.

"Production activity and investment demand remain subdued, while producer confidence indicators have not been improving," the Central Bank said in its statement.

The annual increase in consumer prices stood at 6.5 percent as of Dec. 9, above the bank's 5 to 6 percent target range for this year.

The Central Bank "forecasts that inflation will resume the declining trend in the first half of 2014 and achieve the target in the second half of the year," the bank said. The target for 2014 is 5 percent.

President Vladimir Putin, in a speech on Thursday, said for the first time that Russia's economic problems were mainly home-grown. He singled out a poor investment climate and low labor productivity as barriers to growth.

Yet in an annual state-of-the-nation address, Putin offered few proposals to boost Russia's economic speed limit, beyond seeking the return of billions of dollars in flight capital and improving education and training.

The Central Bank said it would keep in place a fixed-rate, medium-term refinancing facility. That provides liquidity secured against non-marketable assets of up to one year. It had planned to curtail the facility from Feb. 1, 2014.

The decision reflects some strains in the banking system, resulting from the closure of some banks suspected of shady financial dealings.

The Central Bank on Friday withdrew the licenses of three more banks that faced payment problems and were suspected of dubious operations. It has shut down 30 banks since Nabiullina took office in June, out of Russia's 900 banks.

In trading, the ruble showed little reaction to Friday's decision. The Central Bank is scaling back its interventions and plans to move to a full free float of the ruble in 2015.

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