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Central Bank Pledges Unlimited Interventions to Support the Ruble

By The Moscow Times

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The Central Bank pledged Thursday to launch unlimited foreign exchange interventions if the ruble's exchange rate strays outside its target corridor, a response to the worldwide emerging market selloff.

In a statement, the Central Bank said interventions would be "unlimited in volumes until the point when the value of the dual currency basket returns to the operational range".

The bank runs a "dirty" float in which it conducts currency interventions when the ruble approaches the boundaries of a seven-ruble corridor against a currency basket made up of dollars and euros.

It wants to move to a free float by the start of next year, but the ruble's 6 percent slide this year has already led Economic Development Minister Alexei Ulyukayev — a former central banker — to call for a delay.

Emerging market currencies have been under intense pressure since the U.S. Federal Reserve said it would taper off its massive stimulus program, a flow of money that has bolstered many of the world's investments.

Under its current policy, the Central Bank shifts the basket by five kopecks when a standard allotment of $350 million in interventions is exhausted.

The Central Bank said earlier it had shifted the corridor by an unprecedented 25 kopecks, to 33.95 to 40.95 to the basket, indicating that interventions topped $1.75 billion on Wednesday as the ruble strayed outside the range.

The Russian currency firmed momentarily on the news against to as low as 40.88 before returning to trade at 41.05 against the basket.

Analysts in Moscow said the statement sought to clarify the mechanism used by the Central Bank for market players who may not be familiar with the principles on which it is based.

"We always understood it exactly this way. It is mostly for broader agents in the foreign exchange market to curb this panic, just to make sure that they know [the Central Bank] will intervene unlimited when it is needed," said Daria Isakova, an economist at VTB.

In the event that the ruble trades outside the boundaries of the exchange-rate corridor, the Central Bank would conduct unlimited interventions until the ruble again trades inside the corridor, or the corridor shifts to cover the spot market rate.

The maximum daily interventions under the Central Bank's dirty float, when the ruble trades inside the corridor, are $400 million.

Interventions were $138 million on Jan. 27, and $400 million on Jan. 28, the Central Bank said. It did not disclose a figure for Jan. 29.

The Central Bank's foreign reserves fell to $497 billion in the latest week from $510 billion at the start of the year, the Central Bank said separately, indicating it has significant firepower to back its interventions.

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