The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Finance Ministry to Use its Bank Deposits to Raise Liquidity

By The Moscow Times

February 26, 2014

The Finance Ministry said it plans to boost liquidity in the money markets using funds it holds on account at banks by cutting the minimum amount that must be kept on deposit to 200 billion rubles ($5.6 billion) from 600 billion.

Finance Minister Anton Siluanov said Wednesday that the ministry also intended over the medium term to develop borrowing tools that would enable it to tap the capital market for short-term needs.

"We are keeping huge funds on treasury account," he said. "We need to push monetary funds into the economy, not hold it in accounts at banks, so that banks have liquidity and interest rates are lower."

The ministry's head of treasury Roman Atyukhin said the rule on minimum treasury deposits would change in September.

The plan comes at a time of tight liquidity on Russia's money markets, with the Mosprime one-week interbank interest rate at 6.5 percent, in line with the Central Bank's fixed lending rate which acts as a ceiling for market fluctuations.

The Central Bank has resisted cuts in its 5.5 percent benchmark policy rate as it is concerned about inflation. However, President Vladimir Putin has called for measures to lower borrowing costs in the economy.

Alexander Morozov, chief Russia economist at HSBC, said the additional liquidity injection was "significant" but was not likely to cause big market moves as it would happen over time.

"Since we are not talking about a one-off mechanism the overall reaction will be muted. It should be marginally positive for money markets but I do not think we will see a significant decline in money market rates," he said.

He said Russia was gradually moving toward the model in Western economies, where finance ministries use short-term treasury bills to borrow on the market rather than hold large funds on deposit.

VTB Capital analyst Maxim Korovin said the deposit rule change would be positive for smoothing liquidity fluctuations over the course of the year, and would help lower money market rates toward 5.5 percent.

Some economists have blamed liquidity injections by the Central Bank, which has been stepping up medium-term refinancing operations for banks, as a factor behind a recent fall in the ruble.

The currency hit a historic low against a dollar-euro basket on Wednesday, on concerns that Ukraine may default.

However, HSBC's Morozov said he expected the impact of the Finance Ministry plan on the ruble to be limited.

"I do not think Russian banks are speculating against the ruble right now. What we see happening with the ruble should be attributed to the behavior of banks' clients — corporates and households — rather than banks themselves," he said.

Original url:
https://www.themoscowtimes.com/2014/02/26/finance-ministry-to-use-its-bank-deposits-to-raise-liquidity-a32510