World Bank Says Russian Central Bank Right to Defend Ruble

By The Moscow Times

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The steps taken by the Central Bank to protect the ruble short term were well founded, according to a World Bank official.

WASHINGTON — Russia's Central Bank made the right decision to defend the ruble in the short term and prevent excessive volatility in the exchange rate when the Ukraine crisis escalated, a senior official at the World Bank has said.

The Russian Central Bank was forced in early March to halt its shift toward inflation targeting and instead tame the ruble's fall after Russia seized and annexed Ukraine's Crimea. Since then, the bank has spent nearly $30 billion in currency interventions.

"That was not a bad strategy to try to overcome that period instead of creating a lot of volatility in the currency," said Hans Timmer, World Bank chief economist for Europe and Central Asia, on Wednesday.

"I would argue that the Central Bank should do that, look at these other variables [currency rates, asset prices] in the short run," Timmer said on the sidelines of an International Monetary Fund and World Bank meeting. "But ultimately it is their responsibility to keep inflation under control."

The Central Bank has reiterated that its goal to let the ruble float freely as of next year has not changed. The ruble is down more than 7 percent against the dollar so far this year, after falling as much as 11 percent in March.

The World Bank warned earlier this month that the Russian economy may shrink by as much as 1.8 percent in gross domestic product terms if the standoff between Russia and the West over Ukraine escalates further.

Timmer said the decision to defend the ruble should be short–term only.

"If this is a much longer–term development and you will see capital outflows that will grow and that will continue for a long time, then the central bank will have to change its policy," he said.

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