

Analysts Expect Central Bank to Keep Rates Unchanged on Friday

By [The Moscow Times](#)

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Russia's Central Bank is likely to leave its main interest rate unchanged on Friday to support the weak economy, although there is a small chance it could opt for a hike to clamp down on high inflation, economists say.

Of the 19 economists surveyed by Reuters this week, 15 expect the bank to keep rates at 8 percent on Friday, while four anticipate a half percentage-point increase.

A surprise hike would not be out of character for a Central Bank that has long identified defeating inflation as its main priority. Price growth remains well above the bank's target range despite its three rate hikes this year.

Nevertheless, the bank seems more likely to stay on hold. Monetary policy is already tight, the economy is close to recession, and the Kremlin's patience with growth-stifling rate hikes is wearing thin.

Whatever the decision, tomorrow's meeting will underscore the painful predicament that the bank faces.

Last month, President Vladimir Putin introduced a sweeping ban on Western food imports in retaliation for the West's sanctions on Russia over Ukraine.

Officials have said the ban will drive up inflation. The Economy Ministry raised the government's 2014 inflation forecast to 7 to 7.5 percent from a previous 6 percent. And it only sees inflation falling slightly, to a 6 to 7 percent range, in 2015.

Such figures are at odds with the inflation levels targeted by the Central Bank, however.

This year, the bank had set itself an inflation benchmark of 5 percent. Although its rules allow inflation to deviate by up to 1.5 percentage points either side, it now looks certain to miss even the softer target that implies. And next year, the bank aims to reduce inflation still further to 4.5 percent.

All the while inflation has been rising rapidly to hit 7.6 percent in August, despite the Central Bank's cumulative 2 1/2 percentage points of increases in its main rate to 8 percent.

"The regulator might fear damage to its credibility if it fails to act after explicitly threatening to lift rates if inflationary risks materialize," VTB Capital economists said in a report.

Shifting Targets

But many analysts say that instead of trying to batter inflation down to meet ever-more elusive targets, the bank will instead lobby the government to allow it to raise these targets, citing circumstances beyond its control. That, after all, is exactly what happened last year.

"Negotiations are under way over ... a revision of forecasts, and during this period the bank will take a break," said Renaissance Capital analyst Oleg Kuzmin.

Further rate hikes could also incur the wrath of the Kremlin. Some government officials have already criticized the bank's tough policy as Russia's economy is hovering on the brink of recession.

One critic, Economic Development Minister Alexei Ulyukayev, has been pushing for a "special mechanism" under which his ministry, along with the Finance Ministry, would jointly set inflation targets with the Central Bank. Putin has given his backing to this idea, although the details remain vague.

For the Central Bank, the implied threat to its independence is an even greater worry than inflation remaining above target.

"Political room for additional tightening seems to be close to exhausted, and the CBR seems to have already started to soften its ultra-hawkish language," VTB Capital economists said.

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