The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Analysts Predict Russian Central Bank Will Raise Lending Rates by One Point

By The Moscow Times

December 09, 2014

Russia's Central Bank will raise its key lending rate by one percentage point later this week to try and halt the ruble's slide, most contributors to a poll of 17 analysts predicted on Tuesday.

The bank, which holds a regular meeting to discuss rates on Thursday, is under pressure to tighten policy to support the ruble, which has lost 38 percent against the dollar since June, and rein in inflation, which reached 9.1 percent in November.

The Central Bank spent $4.53 billion in interventions last week to try to stem the ruble's fall, a month after it let the currency float freely.

The bank raised its key rate by 1.5 points at its last meeting on Oct. 31, bringing the cumulative increase this year to 400 basis points.

"We think that the Central Bank will increase rates by a percentage point, maybe by one and a half, in order to try to stabilize the situation on the forex market," said Vladimir Kolychev, chief economist at VTB Capital.

The bank could also take additional measures, including continuing to buy rubles and improving the terms under which it lends foreign currency to banks for liquidity purposes, he added.

Analysts at Morgan Stanley said in a report that a large rate hike was needed as part of a package of measures to shore up financial stability — a bigger concern now than just controlling inflation — as the weakening ruble is adding to financial strains at Russian banks.

Out of the 17 analysts surveyed, 12 expected the Central Bank to increase the key rate, with five predicting that it would be left on hold at 9.5 percent.

Of those forecasting an increase, 10 expected a one-point hike to 10.5 percent. One predicted a quarter point increase and one predicted a two point hike.

Financial markets are pricing in a rate hike this week that is even larger than the one point increase predicted by the poll.

Since the start of December yields on one-year OFZ treasury bonds have risen around 200 basis points to 12.67 percent, while three-month forward rate agreements have risen by around 400 basis points to 16.5 percent.