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INDEPENDENT NEWS FROM RUSSIA

Russian Central Bank Set to Keep Growth-Stifling 17% Rate

By Howard Amos

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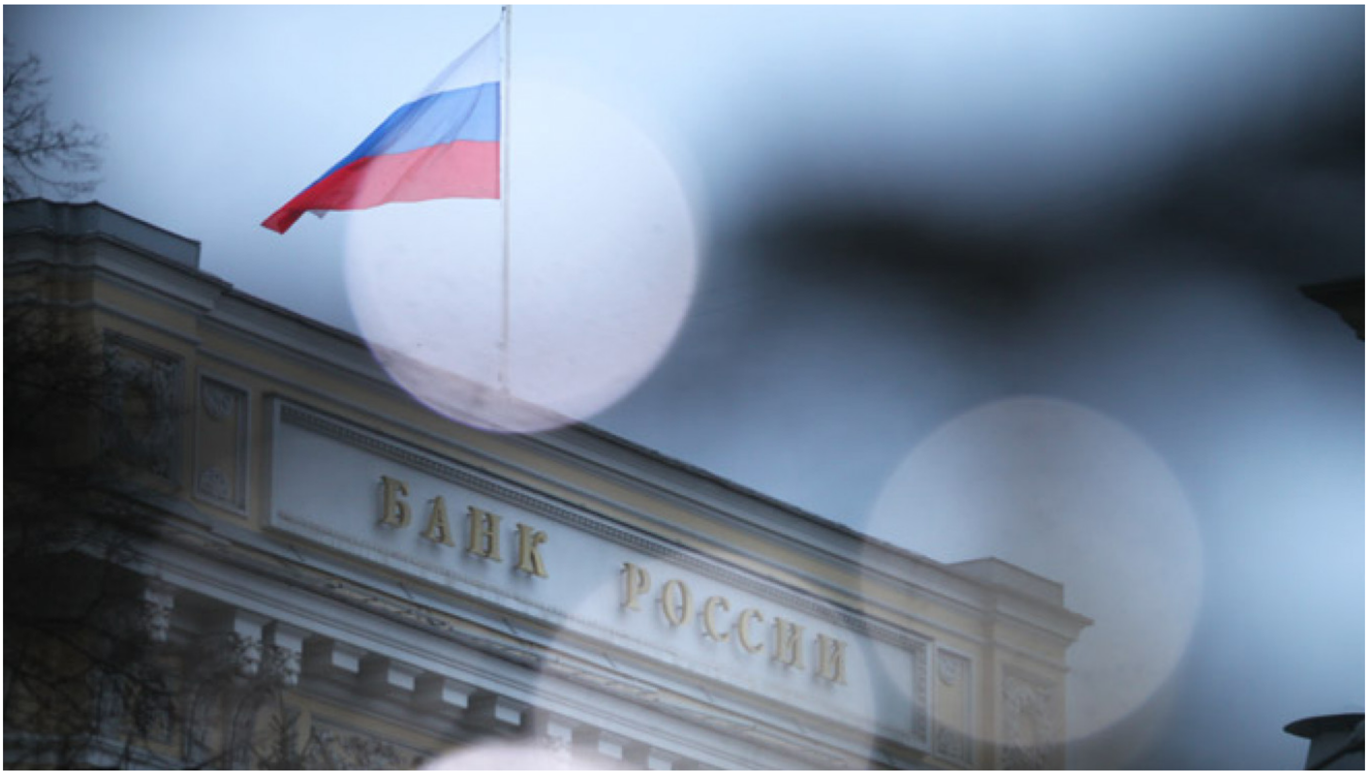

Few experts predict that the Central Bank will cut rates soon.

Anton Titov, head of mid-sized Russian footwear retailer Obuv Rossii, has halted his firm's 2015 investment program, frozen planned shop openings and is looking at production cuts.

The reason? High interest rates that he said are having a crippling effect on Russian companies.

"It's unfeasible to actively develop a retail business with interest rates of 20 percent and higher," said Titov, who runs Obuv Rossii's 451 stores from the Siberian city of Novosibirsk.

There is little respite in sight for businessmen like Titov. A Central Bank meeting scheduled for Friday is not expected to see policymakers change course: Russia has not cut interest rates since 2011.

The Central Bank's hawkish stance has meant it has been accused of exacerbating a recession that is expected to see an economic contraction of up to 5 percent in Russia this year.

No Cut Yet

The key interest rate is currently at 17 percent, the highest for more than a decade, after the Central Bank raised it six times last year to slow a currency collapse and rein in quickening inflation.

In January 2014, the key rate was just 5.5 percent.

With the ruble down almost 20 percent this year against the U.S. dollar, geopolitical tensions rising over fresh fighting in eastern Ukraine and accelerating inflation, few experts predict that the Central Bank will cut rates soon.

The ruble fell some 40 percent against the dollar last year, pulled down by plunging oil prices and Western sanctions on Moscow over Ukraine.

In a survey of 19 economists, 18 predicted that the Central Bank will hold the benchmark rate, the Bloomberg news agency reported Thursday.

"They will keep it on hold," said Oleg Kuzmin, chief economist at Renaissance Capital in Moscow, but added that a reduction was likely in the first three months of this year.

"The longer it stays there the more damaging the impact," Kuzmin said.

'Only in the Cemetery'

It is not only small- and medium-sized business that are feeling the pressure of high interest rates: tycoons have also criticized the monetary authorities for their fixation on inflation targeting.

"The government and the Central Bank are trying to achieve zero percent inflation but there's only low inflation in the graveyard and it's no use to anyone there," billionaire Oleg Deripaska said in an interview with Russian television channel Rossiya 24 at the Davos economic forum last week.

In conditions of expensive money, it is natural that people are trying to pay off their existing debts and avoid taking on new obligations, according to Deripaska.

Even senior officials have admitted that the current conditions are stifling.

"With such interest rates conducting business in Russia is impossible," Kremlin economic aide Andrei Belousov said on Jan. 15, Russian news agency TASS reported.

Banking Sector Strain

The continuation of Russia's current monetary policy stance puts a large chunk of the country's 850-or-so banks in danger of collapsing, according to predictions by the Center of Macroeconomic Analysis and Short-term Forecasting.

More than 280 banks could require sizable state financial support in 2015, and another 230 in 2016, the experts said in a report quoted by newspaper Vedomosti on Monday.

"A domino effect has begun [in the banking sector]," Boris Titov, the government's ombudsman for the rights of businesses and co-chair of lobbying group Delovaya Rossiya, told Vedomosti in an interview published Monday.

"As ever, they save the big banks and the real financial burden is borne by second-tier banks that are the main creditors of the real economy," he said.

Only 27 banks, each with a capitalization of more than 25 billion rubles ($361 million) as of Jan. 1, are currently on a provisional government list of institutions eligible for state aid.

'Not Very Acceptable'

Back in Siberia, Anton Titov's Obuv Rossii is currently in negotiations with local banks about raising financing to expand its footwear production facilities near the southern Russian city of Cherkessk.

But Titov said that the planned construction work was now in question.

"We are currently negotiating with banks," said Titov. "The interest rate conditions are not very acceptable."

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