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# Russia's Central Bank Unexpectedly Cuts Key Interest Rate

By The Moscow Times

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Russia's Central Bank unexpectedly cut its main interest rate late last week as fears of recession mount in the country following the fall in global oil prices and Western sanctions over the Ukraine crisis.

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The bank had been widely expected not to change the rate. The move implies a shift in the Central Bank's priorities away from clamping down on rising inflation and supporting the ruble, towards trying to support economic activity, which the bank expects to fall sharply in the coming months.

The decision will also fuel speculation that recent changes in the bank's senior management have shifted the bank towards more dovish monetary policy, possibly under pressure from the Kremlin, banks and business lobbies.

The shift in policy may also reflect the realization that Russia's economy is heading for a hard landing as low oil prices look set to persist and the conflict in Ukraine has worsened, defying hopes of an early end to Western sanctions.

Data released this week showed real wages slumping by 4.7 percent year-on-year in December and real disposable income slumping by 7.3 percent, boding ill for economic growth in the months ahead.

The bank said it expected gross domestic product to fall by 3.2 percent in annual terms during the first half of 2015, following growth of 0.6 percent in 2014.

"This tells us they are looking beyond rising inflation in the coming months to try to stimulate economic growth," said William Jackson, emerging markets economist at Capital Economics in London.

"But I don't think the rate cut will have much impact [on growth]. If you look at the stress on the banking sector, capital flight, the real income squeeze and collapse in oil prices, then a recession is inevitable."

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