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INDEPENDENT NEWS FROM RUSSIA

Analysts Expect Steady Russian Interest Rates and Soaring Inflation

By The Moscow Times

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Forecasts for economic growth were slightly more pessimistic than a month ago, with gross domestic product expected to decline by 4.3 percent in 2015.

Russia's Central Bank will hold its interest rates steady this month as inflation stays in double digits despite an economic slump, a poll predicted on Monday.

The economy is set to see its first recession this year since the aftermath of the global financial crisis as sanctions imposed on Moscow for its role in the Ukraine conflict and a sharp drop in oil prices bite.

These pressures have also led to a steep fall in the value of the ruble.

Out of 15 analysts who gave a rate forecast, 11 predicted that the bank would hold its key policy rate at 15 percent in March, with three predicting a cut and one a raise.

The bank unexpectedly cut the rate by two points at the end of January, after raising it by six and a half points in mid-December in a shock move designed to stabilize the ruble. The bank next meets to discuss rate policy on March 13.

The polled analysts predicted that the key rate would be cut gradually in the course of the year, with quarterly one-point cuts beginning in the second quarter.

Forecasts for inflation, which is rising as a result of the weak ruble, were more pessimistic than in the previous poll.

The latest poll predicted that inflation would reach 16.6 percent in February and 17.2 percent in March. It was seen falling to 12.1 percent by year-end, higher than the 11 percent predicted in the previous poll.

"We expect a substantial acceleration of inflation in the months ahead," Bank St. Petersburg analyst Olga Lapshina said. "Against this background a rate cut by the Central Bank may not happen earlier than the middle of summer."

Forecasts for economic growth were slightly more pessimistic than a month ago, with gross domestic product expected to decline by 4.3 percent in 2015, which compares with a 4.2 percent contraction predicted a month ago.

"Weak fundamentals, exacerbated by a low oil price outlook, deteriorating business confidence, the rating downgrade [by Moody's], and Western sanctions, will cause the real economy to shrink by around 4 percent in 2015," said Maria-Pia Kelly, analyst at Mantis. "In the absence of fast structural reforms the recovery will be slow."

Forecasts for the ruble have become notably more bearish than a month earlier.

The polled analysts now see the ruble ending the year at 65 against the dollar — down from today's level of 62.2 and significantly weaker than last month's prediction that the ruble would rally to 55 against the dollar by year-end.

"We remain bearish on the outlook for the ruble," Danske Bank economist Vladimir Miklashevsky said. "Volatility will depend on swings in oil and news from eastern Ukraine. We do not see any support from fundamentals in 2015."