The Moscow Times
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INDEPENDENT NEWS FROM RUSSIA

Weakening Ruble Likely to Shrink Russian Interest Rate Cut

By The Moscow Times

July 30, 2015

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Russia's Central Bank will cut its key lending rate by 0.5 percent on Friday, a poll predicted, with the bank scaling back the size of policy easing compared to previous cuts in response to ruble weakness.

The bank last cut its key rate by one percent in June, to 11.5 percent, but said at the time that the pace of easing could slow because of inflation risks. It has cut the key rate by a cumulative 5.5 percent this year.

Most analysts in the Reuters poll published on Thursday expect the bank to keep cutting rates as policy remains tight and the economy depressed, with gross domestic product still slumping in year-on-year terms as low oil prices and Western sanctions over the Ukraine conflict weigh.

But pressure to slow the pace of monetary easing comes from a renewed weakening of the ruble which is increasing inflation risks. The ruble has shed 4 percent against the dollar over the last week as oil prices have slid.

Earlier this week the Central Bank suspended its daily purchases of foreign currency, a move seen as signaling worries about the ruble's decline.

"Increased FX volatility ... is one of the central issues the Central Bank is looking at when it decides on policy," ING economist Dmitry Polevoy said.

"So that is why there will be a more cautious cut of just 50 basis points: not providing any threat to the FX market but at the same time confirming that the trend for the policy rate remains the same."

The polled analysts saw the ruble at 58.5 against the dollar in a month's time and at 58.21 in 12 months, a more bearish outlook than last month's poll.

Their forecasts for economic growth and inflation were little changed, with analysts continuing to expect only a slow recovery from the slump despite recent signs the contraction is bottoming out.

Gross domestic product was seen falling in 2015 by 3.5 percent and rising by 0.5 percent next year, the same as in last month's poll.

Inflation was seen ending this year at 12.1 percent and falling further to 6.4 percent by the end of 2016.

"We characterize the current stand of the Russian economy as scraping the bottom," said Danske Bank economist Vladimir Miklashevsky.

"We see all major economic indicators to continue in deep freeze during Q3 15 as the external environment remains challenging and the internal environment is set to improve slowly."

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