

Central Bank Narrows Rate Spread

By [The Moscow Times](#)

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The Central Bank defied expectations of no policy change Wednesday by opting to narrow the spread between its lending and deposit rates, seeking to strengthen its influence over market interest rates.

The Central Bank raised the deposit rate, its main tool to manage excess liquidity, by 25 basis points to 3.75 percent, while cutting the one-day repo rate that is currently the effective ceiling for interbank money rates by 25 basis points to 5.25 percent.

It left the official benchmark refinancing rate at the 8.25 percent it set in May.

"Today's move is, first and foremost, an attempt by the Central Bank to wrest back control over market interest rates ... so that it is better able to respond should the external environment deteriorate rapidly," analysts at Capital Economics said in a note.

The Central Bank in a statement pointed at decreasing price pressure thanks to a good harvest and better inflationary expectations but said that higher lending activity could become a risk

for inflation.

The Central Bank said a narrower range between rates "should help to limit the volatility in money market rates in conditions of ruble liquidity shortages in the banking sector."

The change in rates reflects the Central Bank's willingness to intervene less in the currency market, and the widening of the ruble's trading band may become the next "technical change," said Natalya Novikova, Russia and CIS economist at Citibank in Moscow.

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