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Central Bank Seen Easing in Q2 2013 as Growth Slows

By The Moscow Times

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The Central Bank will stay its hand in the first quarter of 2013, seeking confirmation that inflation is slowing before it eases interest rates to revive a slowing economy, a poll of 19 economists shows.

The survey predicted that the economy would grow by 3.2 percent in 2013, down from an expected 3.6 percent this year and far short of pre-crisis expansion rates of around 7 percent a year.

Russia's economy has withstood the global slowdown this year thanks to a spike in government expenditures before President Vladimir Putin's election in March, while prices for its key export, oil, have stayed over $100 per barrel.

However, international economists and local think tanks point to the vulnerability of Russia's $1.9 trillion economy, as its commodity dependence has only increased since Putin first became president in 2000.

A slowdown in booming lending to households and tighter government spending will restrain ebullient consumers, while lower spending by state companies such as Gazprom will undermine investment.

The recession in the euro zone, Russia's main trade partner, points to weaker export revenues. Russia has cut its forecast for gas production and exports for next year amid an uncertain outlook for fuel demand.

"The economic slowdown has already started to affect inflation dynamics," said Maria Pomelnikova, an economist at Raiffeisenbank.

"The efficient policy of the Central Bank and the Finance Ministry should keep inflation closer to 6 percent, providing confidence that the regulator will remain on hold in the nearest future."

Slowing economic growth will prompt the Central Bank to loosen monetary policy in the second quarter of 2013 once lingering inflation concerns have been assuaged.

Economists expect the Central Bank to cut its refinancing rate by 25 basis by the end of the second quarter to 8 percent, and its one-day fixed repo rate — a ceiling for the money market — by a quarter point to 6.25 percent.

The overnight deposit rate, a floor for the interbank market, is seen being cut in the third quarter to 4.25 percent.

The regulator tweaked some of its rates in December to reduce market volatility, and signaled that it intends to keep rates on hold for now, giving similar weight to risks of higher inflation and slower economic growth.

Central Bank Chairman Sergei Ignatyev later described the current interest rate corridor as optimal.

Economists kept their 2013 inflation forecast at 6.1 percent compared to a month ago, which is above the government and Central Bank's target of 5-6 percent.

Consumer price growth is expected to have accelerated to 6.6 percent in 2012, compared to a 6.8 percent forecast in November, and up from 6.1 percent seen the previous year, reflecting higher food bills after a dry summer.

Compared to impressive growth in wages this year of 8.3 percent, inflation will rise faster than salaries in 2013, thus crimping the spending power of Russians.

Slower economic growth and a lower current account surplus also pointed to a weaker ruble, which was, however, seen holding relatively stable over the course of the year.

The Russian currency is seen weakening to 35.29 against the euro-dollar basket by the end of June from 35.10 currently, and declining to 35.74 by the year-end.

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