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Bank Rates Kept Stable and Economists Guessing

By The Moscow Times

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The Central Bank left monetary policy unchanged Tuesday and sounded a relatively hawkish note on inflation again, muddying the waters over the direction of its next interest rate move.

In a notable contrast from last month, the bank made no mention of whether it sees money market rates as "acceptable for the near future," a formulation that had been seen as meaning rates would stay on hold for a while.

"Judging by the statement, you can't unambiguously conclude that rates will be lowered," said Vladimir Osakovsky, chief Russia economist at Bank of America Merrill Lynch.

"It isn't dovish enough to support expectations of a rate cut. There's nothing [in the statement] that would contradict a rate hike," he said.

Analysts polled said last month they expected the bank to begin cutting rates in the second quarter in response to a stabilization of inflation and an economic slowdown.

But the Central Bank emphasized inflationary risks again in its statement while sounding fairly relaxed about signs that the economy is slowing, suggesting at the very least that it is in no rush to cut rates.

“The toughening of the Central Bank’s rhetoric … confirms our expectation that [it] will begin an easing rate cycle only after a turnaround in the inflation dynamic: that is, no earlier than the second quarter,” said Vladimir Tsibanov, economist at Rosbank.

Alexander Morozov, chief Russia economist at HSBC, predicted that the bank would not begin cutting rates until the second half of the year, calling the market’s expectation of a second-quarter rate cut “very premature.”

“Until annual inflation slows to within the 5 to 6 percent target range, the Central Bank probably won’t be ready to lower rates,” he said.

The main lending rates have been on hold for four months in a row.

The bank held the fixed one-day repo rate, a ceiling for the money market, at 6.5 percent, with the auction repo rate also unchanged at 5.5 percent. The refinancing rate, the cost of overnight loans from the Central Bank, was kept at 8.25 percent.

The overnight deposit rate, a floor for interbank rates, was left at 4.5 percent. Last month, the Central Bank hiked this rate by 25 basis points to reduce money market volatility.

The bank is still concerned that high headline inflation could translate into higher underlying inflation, implying no room for complacency.

“The inflation rate staying above the target range for a prolonged period of time may affect economic agents’ expectations and thus poses inflation risks, despite the absence of any significant demand-pull price pressures,” the bank said.

In contrast, its comments on economic growth were relatively relaxed, belying some analysts’ expectations that the Central Bank may begin paving the way this month for future interest rate cuts to boost the slowing economy.

The bank said economic activity is gradually cooling, but indicators of business sentiment remain positive and the labor market tight.

As previously, it saw little risk of a substantial slowdown in economic growth caused by tight monetary conditions.

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