

Weak Investment Set to Spur Rate Debate

By [The Moscow Times](#)

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Russia's falling investment demand and declining real wage growth may fuel further the debate over the need to ease monetary policy.

Fixed investment of Russian firms fell 0.7 percent in December, the Federal Statistics Service said in its monthly report Friday, the weakest showing since February 2011.

Firms held back investments last year on the back of political uncertainty during the election period and the debt crisis in Europe.

Fixed investments rose 6.7 percent over 2012 in year-on-year terms, compared with a 7.8 percent forecast by the Economic Development Ministry and 8.3 percent growth in 2011.

Bankers and some government officials have started calling for more monetary stimulus to support growth amid signs the economy is losing momentum. Industrial growth slowed in

December, the data show.

The Economic Development Ministry has blamed the Central Bank's monetary-policy tightening in September for the slowdown, while banks are urging the Central Bank to provide long-term liquidity so they can meet demand for credit.

The Central Bank has kept markets guessing about its next rate move. The Bank of Russia left monetary rates unchanged in January but sounded a relatively hawkish note on inflation.

First Deputy Chairman Alexei Ulyukayev said this week he saw no grounds for further monetary stimulus, but he left open the direction of the Central Bank's next interest-rate decision.

Upbeat retail data and a tight labor market indicated strong consumer demand in December. However, a sharp decline in real-wages growth signaled weaker activity in the coming months.

Retail sales came in stronger than expected in December, rising by 5 percent before the New Year's holidays. But real wages rose 0.3 percent on the year, compared with analysts' expectations for a 5.3 percent increase.

"Domestic demand is losing steam, but high inflation will likely continue acting as a hurdle for any calls on lower policy rates in the coming months," Dmitry Polevoi, an economist at ING Eurasia Bank said in an e-mailed note.

Analysts, polled by Reuters in December, predicted the Central Bank would hold interest rates in the first quarter of 2013, seeking confirmation that inflation is slowing before it eases interest rates to revive a slowing economy.

President Vladimir Putin backed a decision to merge the Federal Service for Financial Markets and the Central Bank into a single financial regulator, Interfax reported.

"Of course I support this decision, especially given that you have done a lot of work with the expert community," Putin said at a meeting on the development of the stock market when asked by First Deputy Prime Minister Igor Shuvalov whether it would be possible to begin the establishment of the new regulator in 2013.

"We should be able to start merging the two institutions at the end of this year," Shuvalov said.

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