The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Rate Cuts Unlikely as Inflation Jumps Above 7%

By The Moscow Times

February 04, 2013

A jump in the inflation rate above 7 percent in January means the Central Bank will be in no rush to cut interest rates despite growing political pressure to do so.

Data released by the Federal Statistics Service on Tuesday showed that the consumer price index rose 7.1 percent year on year, a sizeable increase from 6.6 percent in December, and rose 1 percent during the month.

That will be enough to keep the Central Bank on hold when it meets in a week to review interest-rate policy, as it looks for what is expected to be a temporary spike in headline inflation to work its way through the system, economists say.

"Despite a deceleration in economic growth, and stable core inflation, there is no room for the Central Bank to ease policy, given that it is focused on midterm inflation and growth expectations," said Dmitry Polevoi, Russia economist at ING.

"Given that inflation expectations are very sensitive to headline inflation performance ... we expect the central bank to remain on hold," he said. "I don't rule out that the Central Bank may decide to hike rates, but it is unlikely."

Higher inflation in January was expected. Winter conditions drive up the price of fruit and vegetables, and annual increases in transportation fares and excise duties took effect.

Traditionally volatile food prices accounted for most of the increase, rising 1.8 percent in the month. In contrast, prices for nonfood items and services were steadier, rising 0.4 percent and 0.6 percent respectively.

Nevertheless, inflation has risen faster than most forecasters expected. Analysts polled by Reuters at the end of last month expected the consumer price index to rise 0.8 percent during the month, leaving inflation below 7 percent.

The inflation jump means the Central Bank will be less likely to reduce its interest rates in the near future, even after President Vladimir Putin added his voice last week to concerns about high borrowing costs.

Last month, the Central Bank said that although the inflation spike was caused mainly by temporary nonmonetary factors, it risked becoming entrenched if it led people to expect higher inflation in future.

Original url:
https://www.themoscowtimes.com/2013/02/04/rate-cuts-unlikely-as-inflation-jumps-above-7-a21265