

Poll Shows Interest Rate Cut Unlikely in June

By [The Moscow Times](#)

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The Central Bank will resist political pressure to lower interest rates in June as the economy slows, but will cut in the third quarter if inflation returns to target as expected, a poll showed.

The economy is expected to grow at its slowest pace since 2009 this year, with sluggish investment and slowing domestic demand prompting analysts to slash their forecasts.

The Reuters poll of 16 economists saw the country's gross domestic product expanding by 2.6 percent in 2013, down from 2.9 percent expected in the last survey in April and compared with the government's forecast of 2.4 percent.

The next batch of economic data in June may foster an "apocalyptic mood", said Alexander Morozov, chief economist at HSBC, but the weak results should be treated with caution due to the calendar effect of long holidays in May.

The poll sees the growth rate picking up in the second half, boosted by expectations of higher government spending and rising economic activity in Europe, Russia's largest trade partner.

Sluggish domestic investment and the weak global economy have been major contributors to the slowdown, while the government has been slow to implement structural reforms needed to boost productivity.

The Central Bank has said cheaper borrowing will not resolve the lack of investment growth but that it should be able to cut interest rates later this year as inflation falls.

High inflation has restrained the central bank from easing monetary policy, but inflation is seen falling to 5.9 percent by the end of the third quarter — inside its target range of 5 to 6 percent — from above 7 percent at present.

"June will be critically important for inflation data. If a significant fall does not occur, then meeting the target level of below 6 percent will be put into question," said Morozov.

Economists expect a dovish shift in monetary policy after Kremlin aide Elvira Nabiullina replaces current Central Bank head Sergei Ignatyev at the end of June.

Of the 16 analysts polled, 14 made forecasts for the next central bank interest rate meeting. A majority expected all key rates to be held in June — a change from April's poll, in which most respondents expected a 25 basis point rate cut by the end of the second quarter.

A cut in the one-day repo rate by 25 basis points to 5.25 percent in June was predicted by 6 out of 14 economists.

The central bank will begin to ease in the third quarter by cutting lending and deposit rates, with 50 basis points of rate cuts seen by year-end, according to the poll.

"Nabiullina has claimed that the current growth rate is below potential but she strongly opposes accelerating inflation," said Vladimir Miklashevsky, economist at Danske Bank.

"Thus, we believe she will not make any abrupt monetary moves in 2013 but soft easing is still likely."

The ruble is seen weaker at 36.37 rubles versus the euro-dollar basket towards year-end, compared to 35.50 rubles in the previous poll and 36.2 rubles currently.

The yield on Russia's five-year treasury bond is seen at 6.25 percent by the end of the third quarter, slightly lower from 6.45 percent currently.

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