

Central Bank Holds Rates at Ignatyev's Last Meeting

By [The Moscow Times](#)

June 09, 2013

The  **Moscow Times**

The Central Bank held its main interest rates steady on Monday at Sergei Ignatyev's last meeting as chairman, but his successor came under immediate pressure from President Vladimir Putin to revive the economy.

The timing and thrust of Putin's comments appeared intended to direct Elvira Nabiullina, his top economic adviser who takes charge at the Central Bank this month, to cut rates as soon as at July's meeting.

Shortly after the Central Bank's announcement that it had held its main overnight policy rates for the ninth month running, news agencies carried comments from Putin that economic developments were "a cause for concern."

Forecast economic growth of 2.4 percent this year "is below the level needed for stable development, for the resolution of social and other problems," Putin said.

Annual inflation persistently above the Central Bank's 5-6 percent target — it accelerated in May to 7.4 percent — has kept Ignatyev resistant to cutting the main policy rates as his 11-year term nears its end.

But economists expect Nabiullina, a former Economic Development Minister who has consistently emphasized growth, to do Putin's bidding as soon as next month.

"The arrival of Nabiullina should change the policy bias at the ... bank," said Ivan Tchakarov, chief Russia economist at investment bank Renaissance Capital, forecasting two quarter-point cuts in the main rates by the end of the year.

"I get the impression that Ignatyev put this decision in the hands of Nabiullina, and with that he is leaving," said Julia Tsepliaeva, an economist at BNP Paribas in Moscow, who also foresees a rate cut in July.

However, Alexander Morozov at HSBC said a June inflation "print" of below 7 percent would be needed to justify a rate cut.

The Central Bank kept the corridor for its main one-day policy rates in a range of 4.5-6.5 percent, along with the refinancing rate, the largely symbolic cost of overnight loans from the Central Bank, which was held at 8.25 percent.

As flagged by Ignatyev last week, the financial regulator cut the cost of some six- and 12-month borrowing rates.

It reiterated that it expected annual inflation to fall back into its target range in the second half of the year.

Inflation staying above target for a prolonged period "may affect economic agents' expectations and thus poses inflation risks," it said, while cautioning that risks of a further economic slowdown remain.

Economic growth slowed in the first quarter of this year to 1.6 percent, from 3.4 percent late last year. Putin said Russia's economy should be outpacing, not lagging, global economic growth forecast at 3.3 percent this year.

Proposals he is reviewing include broadening the Central Bank's mandate from ensuring the stability of the ruble to add a specific goal of supporting growth.

Nabiullina has already said she wants to focus on the effective transmission of monetary policy in Russia, where the wide lending margins of an oligopoly of state banks often makes the cost of credit to business prohibitive.

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