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Siluanov Seeks Weaker Ruble to Promote Growth

By Peter Hobson

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Staring down the barrel of the slowing economy and falling tax revenue, Finance Minister Anton Siluanov on Tuesday rejected proposals to lay responsibility for growth on the Central Bank and offered his way out of the government's predicament — devalue the ruble.

Siluanov's ministry will use oil revenue destined for the Reserve Fund to buy currency on the market and weaken the ruble by 1 to 2 rubles ($0.03 to $0.06), he told Bloomberg.

Insisting that strictly "market mechanisms, rather than administrative methods," would be used, he said the measure would make exports more competitive, while a 1 ruble drop in the exchange rate could bring an additional 190 billion rubles ($6 billion) into the budget. The scheme may be launched as early as August.

"During the past 10 years, the ruble's nominal rate has practically remained unchanged, while prices have grown substantially," Siluanov said. "That has led the ruble to strengthen in real terms, which is negatively affecting Russian exporters."

The State Statistics Service this week revealed growth of 1.6 percent in the first quarter of 2013, down from 4.8 percent in the same period last year. Vladimir Putin has held a series of high-level strategy meetings focusing on the problem, Reuters reported. In last week's budget speech he requested spending discipline and signaled that the Reserve Fund and Pension Fund would be used to finance multibillion dollar infrastructure projects.

The finance minister also rejected a proposal to widen the remit of the Central Bank and charge it with ensuring growth, saying it was "without substance and blurs the lines of responsibility for economic growth between the government and the Central Bank." The initiative had been based on the dual mandate of the U.S Federal Reserve Bank to pursue both price stability and full employment.

The Central Bank, by not reducing interest rates, has been accused of obstructing growth. RusAl chief executive Oleg Deripaska said in January that the bank's policy had "sucked all blood from the Russian economy."

However, inflation is predicted to fall back from 7.4 percent in May into the Central Bank's target range of 5 to 6 percent from the third quarter of this year, according to a Reuters survey released on Tuesday, removing the chief impediment to cutting rates.

Quantitive easing, which increases the money supply and has been widely implemented in the West, was ruled out by the finance minister as potentially inflationary.

Experts agree that devaluation is one of the few short-term tools at the authorities' disposal. However, Yevgeny Gavrilenkov, of Sberbank CIB, told Vedomosti that lower inflation would be more likely to help the economy. "Since February the ruble has fallen almost 6 percent against the dollar," he said. "And yet we haven't seen a rise in the rate of growth."

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