

IMF sees Russia c.bank moving towards higher rates

September 16, 2010

- * IMF calls for rate hikes
- * Timing depends on economy, inflation developments
- * Says Russia should target 6 pct mid-term
- * PPI inflation rises to 18-mth high m/m

(Adds GDP comments)

By Lidia Kelly

MOSCOW, Sept 16 (Reuters) - Russia's central bank is likely to move towards increasing interest rates, the International Monetary Fund said on Thursday, as data showed producer price inflation unexpectedly surging to an 18-month high.

Producer prices rose 3.3 percent in August, twice as much as expected. This rise was propelled by higher prices for natural resources -- as a record heatwave pushed up demand for electricity to power air conditioning and fridges. The cost of food and drinks also rose, but not as much. [ID:nMOS007636]

The IMF had urged Russia in the summer urged Russia to consider rate hikes. [ID:nN02100432] It reiterated this view on Thursday, now that there is a clearer indication of the effects of the heatwave and severe drought on rising prices and slowing economic growth.

"The timing will depend on how the economy develops and how inflation develops," Odd Per Brekk, the IMF's representative for Russia said at an Association of European Businesses (AEB) conference. "Interest rates should be focused on inflation."

Earlier this month, the IMF said it could raise the Russian inflation outlook due to the drought. [ID:nLDE6871GN] The fund also expects to cut its economic growth forecast, "but not much", Brekk said.

Consumer prices have been rising 0.2 percent a week for five of the last six weeks, following months of 0.1 percent or lower readings and contrasting with the harvest-time seasonal trend of zero or negative inflation usually seen at this time of year.

But since these are non-monetary factors, there has been debate as to the need for rate hikes.

Russia's Deputy Economy Minister Andrei Klepach told the Reuters Summit the central bank could hike rates in reaction to the drought already this year.

[ID:nLDE68D25]

The central bank and the finance ministry, however, say that the impact of the food price rise is likely to be temporary -- a view which potentially reduces the likelihood of imminent hikes in the benchmark refinancing rate from the current record low of 7.75 percent.

Brekke agreed that the recent increase in consumer prices in Russia is a temporary supply shock stemming from the record heatwave that slashed agricultural output drastically.

"The question is does this feed into inflation going forward and that's what you need to keep an eye on," Brekke told journalists on the sidelines of the conference.

But he said that the central bank should capitalise on the fact that before the drought inflation had fallen to historic lows, and ensure it does not start to spiral again.

"Russia now should use the current low level of inflation as an opportunity to anchor .. and reduce further the rate of inflation," he said. He added that 5-6 percent should be targeted in the medium-term.

The Economy Ministry sees a 7-8 percent inflation rate for this year, above pre-drought forecasts but still below last year's rate of 8.8 percent and on track for its lowest annual reading since the collapse of the Soviet Union.

Brekke reiterated also that the IMF is likely to revise down in the next two weeks its current 4.25 percent gross domestic product (GDP) forecast for 2010 because of the impact from the summer drought, but "not by much."

(Editing by Ruth Pitchford and Toby Chopra)

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