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## RUSSIA FINMIN, CBR TO CALM FINANCE MARKETS BY URGENT MEASURES

MOSCOW, September 18 (Itar-Tass) - The Russian Finance Ministry and Central Bank (CBR) hope by urgent measures to calm the Russian financial markets that have been demonstrating unstoppable decline in recent days. On Thursday they are starting to take a set of measures worked out by them aimed at supporting the banking liquidity, which finally should favourably affect the stock markets.

First of all the CBR is radically - by four percentage points - lowering all legal reserve requirements for Russian banks. CBR head Sergei Ignatyev explained that this will allow them to release up to 300 billion roubles. "We hope that banks will spend these funds not on long-term crediting or other kinds of crediting of clients, but on the maintenance of the necessary volume of their liquidity and on making settlements," he said.

CBR officials stressed, however, that this measure is temporary. From February 1, 2009 and March 1, 2009 the legal reserve requirements will be again increased stage by stage by two percentage points correspondingly. Ignatyev recalled that in spring 2007 the Bank of Russia acted in the same way by temporarily lowering the legal reserve requirements on the condition of their increasing in the future.

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The next step will be holding by the Finance Ministry next week of the first special auction on the placement of money on deposits of the Savings Bank (Sberbank), VTB and Gazprombank. It is planned to deposit the funds for three months. Sberbank, VTB and Gazprombank are expected to get correspondingly 754.2 billion, 268.5 billion and 103.9 billion roubles.

At the same time the refinancing rate that is currently 11 percent will remain unchanged so far.

These decisions were made after the Federal Financial Markets Service (FFMS) on Wednesday afternoon suspended trading in all securities and other financial instruments until further notice. By that time the RST (Russian Trading System's) index dropped to 1058.84 and index of the Moscow Interbank Currency Exchange (MICEX) dropped to 853.93 points.

Deputy Prime Minister and Finance Minister Alexei Kudrin believes that "our measures are to soften the shock fluctuations, to give a possibility to the banking system to adapt to other cost of resources, to other changes, to certain decrease of the assets' volume on the market, to the impossibility in the same measure to loan on foreign markets, to restructure the credit plans." In the minister's view, "As soon as the banks get used to the market indicators and landmarks, they will balance their portfolios and there will be no more such questions of liquidity."

As for the Russian rouble exchange rate, Kudrin said it will be stable because it is determined by the size of the country's gold and currency reserves, which are sufficient in Russia. The Central Bank, the minister stressed, "will be keeping the exchange rate within the corridor that it set."

"Correspondingly, no non-payment issues will arise, the state guarantees the bank deposits, so there is no need to worry," Kudrin promised.

Thus, the finance minister is certain, the current situation "will practically not affect the ordinary Russian citizens." However, Kudrin noted, there remains 'the largest risk - inflation," although the government here also expects to attain the acceptable figures within six months. But in the coming days, Central Bank Chairman Sergei Ignatyev admitted, the government "sets the task to stabilise the banking sector higher than the control over inflation."

According to the CBR chief, the measures the Bank of Russia has decided to take for the stabilisation of the situation on the internal financial market and maintaining liquidity of the banking sector from September 18, will undoubtedly have a certain influence, but not very big, though, on the inflation growth.

"The slowing down of the inflation pace we have expected will not be as we hoped for," he said. "But the inflation rate will be nevertheless going down," Ignatyev noted.

He said that in the latest forecast of the CBR for 208 the inflation figure was set at the level of 11 percent. "It perhaps will be higher by one percent, but it is my personal view," Ignatyev added.

The CBR head said that the inflation target figure for 2009 is set at seven-8.5 percent. "The target will be met," the official promised. He said on Wednesday there were three factors for inflation slowdown. First, a relatively slow growth of money mass. Second, low prices for agricultural products. Third, low oil prices.

Ignatyev's deputy, Konstantin Korishchenko, said earlier that inflation would slow down considerably in September-October 2008. He said his forecast was based on the considerably slower growth of money supply over the past several months.

"Economic laws keep working. Consequently, if money supply growth rates are down, this will cause inflation to go down, too, sooner or later," Korishchenko said. He explained that such temporal factors were able to influence the general inflation trend, but they were unable to change it instantly. "Inflation's downtrend is a fact of life, but it makes itself felt after a while," he said.

Central Bank First Deputy Chairman Alexei Ulyukayev said inflation in September would be zero. He recalled that in January-August 2008 inflation had totalled 9.7 percent, and in August, 0.3 percent.

Ulyukayev said the bank's official forecast for inflation in 2008 at the current moment was 10.5 percent, but it may be upgraded.

"The band of 10.5-11.8 percent in respect of inflation is quite acceptable, but it is unlikely that we will reach the top level in our forecast," the official said.

Presidential aide Arkady Dvorkovich said inflation in Russia would decrease to last year's level by the end of the year. He does not rule a significant decline in inflation some time in the second quarter of next year.

Dvorkovich said the main tool for curbing inflation should be greater production and better conditions for competition in the Russian economy, and not restrictions on money supply or "the tightening of screws" for the sake of reducing money supply.

"Any further tightening of monetary policies would cause growth rates to plummet," he said, adding it was to be hoped the Central Bank and the government were aware of that.

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Inflation had reached 10 percent by September 15 since the beginning of the year, the Prime Tass economic news agency said on Wednesday, quoting an official report of the Federal State Statistics Service.

Retail prices grew by 0.1 percent in the period from September 9 to September 15, Prime Tass cited the document, adding the indicator had gone up by 0.3 percent since the beginning of this month.

Russian Prime Minister Vladimir Putin had a working meeting with the Central Bank chief earlier this month. Ignatyev reported to the premier that the macro-economic situation was stable in the country, the government press service said.

Inflation is going down, but not so rapidly as desired. However, there are reasons to believe the trend will continue, the chief banker said.

The inflation decreasing is explained by the factors of the slow money mass growth and favourable conditions on grain markets. A good harvest is gathered, and consequently the prices for grain and other farm produce are low, Ignatyev noted. He also said that the oil prices were going down and it resulted in lower prices for oil and oil products on the domestic market.

Besides, the gold and monetary reserves grow slowly, and the growth of the money mass is slow, Ignatyev noted.

When the prime minister asked him about the capital outflow from Russia, Ignatyev said that the outflow in August totalled five billion dollars. It is not much. It was more in January - 10 billion. The outflow will not seriously influence the macro-economic situation. It will influence the rouble rate, the Central Bank head said.

The Central Bank will less participate in the rouble rate forming, and the rate would be determined by the market, Ignatyev said. There will be no tough control of the national currency rate, he added. The banker noted that the rouble declined in recent time as compared to the dollar and it might negatively influence inflation.

The chief banker also confirmed the bank forecast about a capital inflow into Russia. It is expected to amount to 40 billion dollars this year. The inflow for the past eight months totalled 25 billion dollars.

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