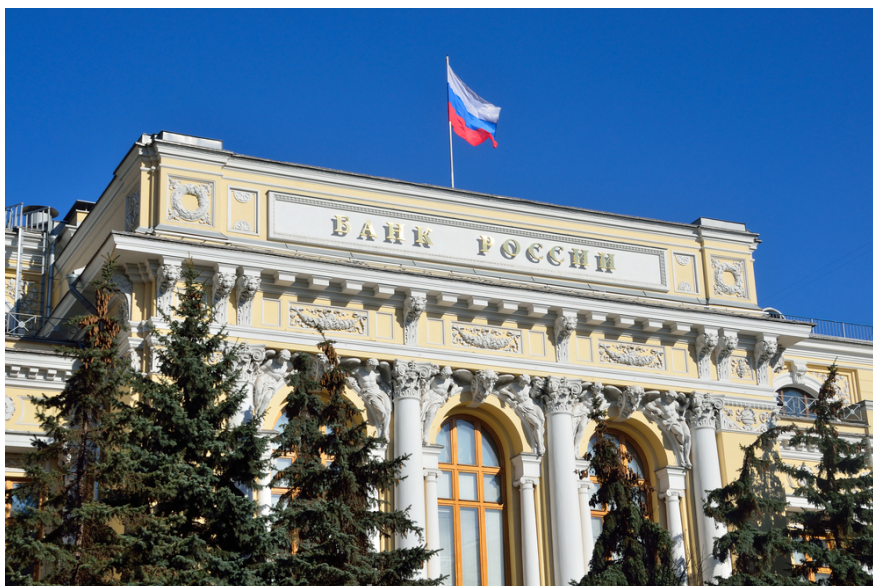


## Bank of Russia capitulates to weaker inflation

Following an unusually dovish statements by the central bank governor, we cut our year-end key rate target from 6.75% to 6.5%, suggesting two 25 basis point cuts - in October and December. The 2020 rate should also move to the lower bound of the 6.0-7.0% equilibrium rate range



Central Bank of Russia,  
Moscow

Today, Central Bank of Russia Governor Elvira Nabiullina made dovish statements. She indicated that:

- The CBR will lower its year-end 2019 CPI forecast (currently at 4.0-4.5%) at the 25 October meeting as CPI keeps underperforming expectations as pro-inflationary risks fail to materialise. This makes perfect sense, given that as of 7 October CPI growth is already 3.9% year-on-year and is going to decelerate further, but any change in official forecasts are not customary for a non-core meeting, which suggests urgency.
- The CBR will consider a faster pace of key rate cuts vs the one kept in mind originally. To remind, the tone of the previous statements suggested the CBR still saw scope for a further reduction in the key rate (currently at 7.0%), but was not going to keep cutting at every meeting, as was the case in the previous 3 times.

Earlier we acknowledged the decline in inflationary risks, however, given that the primary drivers of this slowdown was related to seasonally tight budget execution and favourable conditions on the global grain/food market, both of which are both beyond the control of the monetary authorities, we expected the CBR to adopt a more cautious approach to monetary policy easing. Today's statements suggests a higher level of CBR confidence in the lack of mid-term pro-inflationary factors. As a result, we now see two consecutive 25 bp cuts in October and December this year to 6.5%.

Given the lack of CPI stabilisation in October we see a higher likelihood of inflation underperforming our 3.7% forecast for year-end 2019, which would also mean that it should drop below 3% YoY in 1Q20 on base effects, and a return to 4.0% by the end 2020 may be a challenge. This suggests that next year the key rate may approach the lower bound of the neutral rate range of 6.0-7.0%. At the same time, we do not expect any revision of the 4.0% CPI target or of the neutral range band anytime soon - for the sake of continuity and credibility of the current inflation targeting regime.

## Author

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).