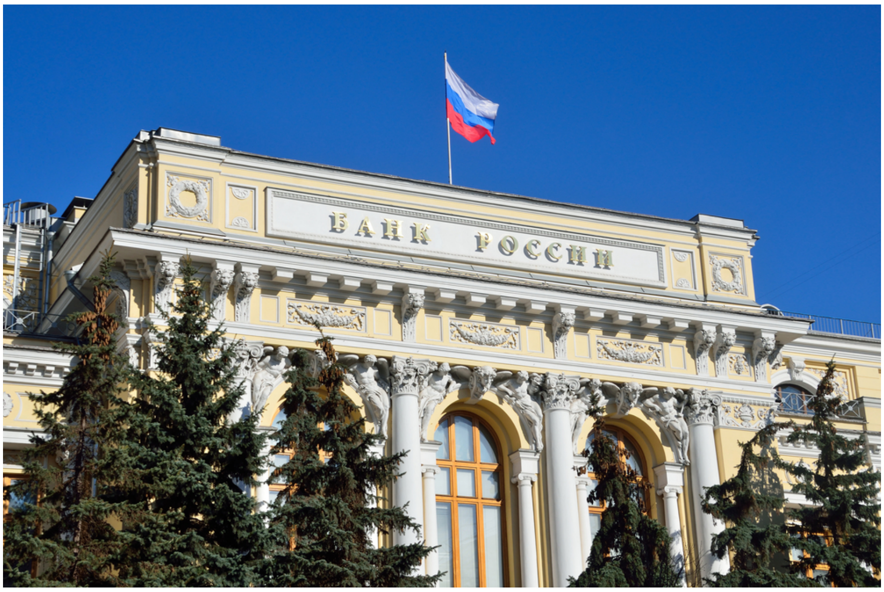
Russia: Key rate unchanged, rhetoric softens

The Bank of Russia (CBR) kept the key rate unchanged at 7.75%, in line with our estimate and the consensus. The commentary was less hawkish, however, as it no longer indicates a high likelihood of further hikes. Still, the list of mid-term risks remains unchanged, suggesting that the CBR is still far away from returning to an easing cycle



Central Bank of Russia, Moscow

7.75%

Russian key rate

unchanged vs. December

As expected

The CBR decided today to keep the key rate unchanged at 7.75%, which was in line with the consensus and our forecast. The rationale for the decision also met our expectations as the bank:

- Mentioned CPI growth at 5.0% year-on-year as of January being at the lower bound of the

forecast range
- Indicated more confidence in CPI decelerating to 5.0-5.5% by the end of the year following a spike in the first half
- Noted more favourable conditions on the financial markets thanks to a less hawkish US Federal Reserve
- Disregarded higher than expected Russian GDP growth of 2.3%, citing deteriorating consumption and investment trends at the end of last year.

The key difference in the CBR commentary versus its December 2018 edition was slightly less hawkish forward-looking guidance. In December 2018, the bank indicated that it would "consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets".

This time, the monetary authorities reduced the level of confidence in the upward rate direction saying that, "In its key rate decision-making, the Bank of Russia will determine if the increases of the key rate in September and December 2018 were sufficient to bring annual inflation back to the target in 2020...".

Combined with the indication that the CBR is unlikely to fully assess the effect of VAT hike on Russian CPI until April, this lowers the likelihood of a hike on 22 March.

Still, we believe that further hikes in the CBR rate are not completely out of the question, given that the bank has reiterated that the balance of risks remains pro-inflationary. The list of inflationary risks remained virtually unchanged, with persisting uncertainties regarding the full effect of VAT on the overall CPI, the deterioration of inflationary expectations by households and businesses, as well as geopolitical and other risks to financial markets stability.

Bank of Russia to keep the key rate on hold... for now

https://think.ing.com/snaps/bank-of-russia-to-keep-the-key-rate-on-hold-for-now/

> We take the CBR commentary as a sign that the likelihood of a hike on 22 March has been lowered, but not reduced to zero. Accelerating CPI growth, growing inflationary expectations and volatility in the financial markets related to the ever-changing expectations of Fed policy, global trade tensions, and geopolitics, will the key factors to watch.

Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Disclaimer