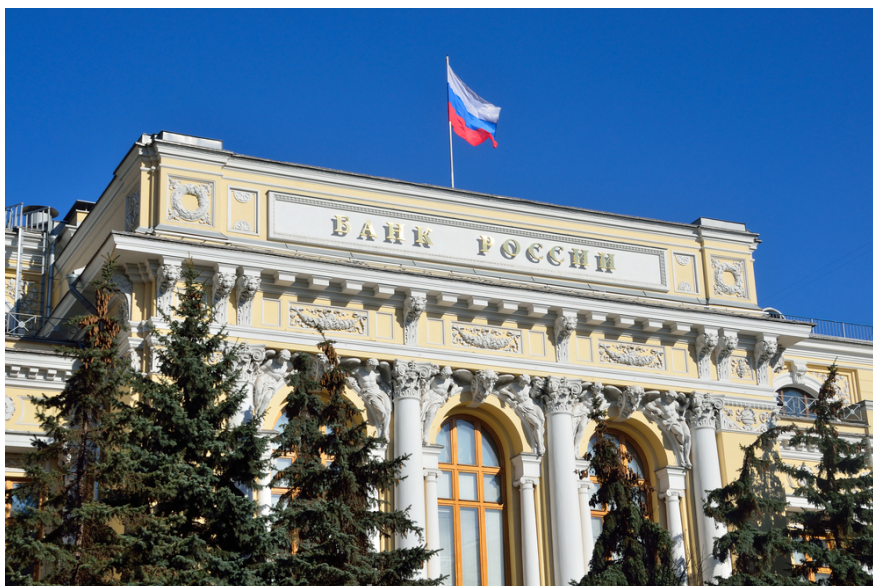


Russia: Key rate unchanged, rhetoric softens

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 be the key factors to watch.

Author

Dmitry Dolgin

Chief Economist, CIS

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 <http://www.ing.com>.