

## Why we expect a significant rate rise in Russia this week

We're expecting at least a 75bp rate hike in Russia on Friday and it could be even bigger given the near-term inflationary risks. But moderating food inflation, a slowdown in M2 growth, a likely weakening in GDP momentum and the already high ex-ante key real rate should limit the mid-term rate ceiling at 6.5 to 7%



Elvira Nabiullina, Head of the Central Bank of Russia

# 6.25%

Russia's expected key rate

A 75 basis point hike on 23 July

Inflationary pressures in Russia are building and that's why we're expecting the country's central bank, the CBR, to make a 75 to 100 basis point hike to either 6.25 - 6.50% this Friday. That's towards the upper band suggested by previous guidance.

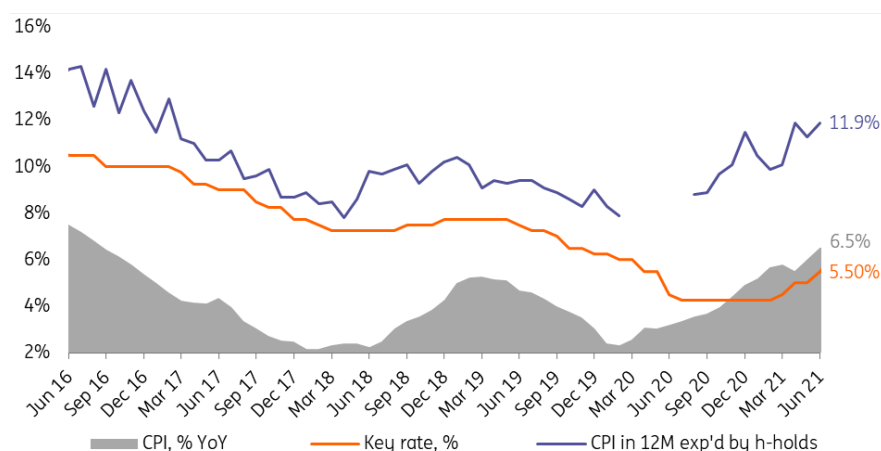
All that's illustrated by the charts below. Russian CPI [spiked by 0.5ppt to 6.5% YoY in June](#),

exceeding market consensus. The second shows banking sector data pointing to a decline in households' preferences to save. The third indicates that inflation expectations by households and corporates are continuing to climb on both supply and demand-side push factors.

The tightening cycle may continue afterwards, as near-term inflationary risk appears significant, with global CPI on the rise, the local labour market becoming tighter, cost inflation continuing, and credit demand increasing. We see the medium-term ceiling for the nominal key rate in the 6.50-7.00% range, which should be reflected in a somewhat less aggressive tone from the CBR commentary this Friday.

## CPI hit a new high of 6.5% YoY in June

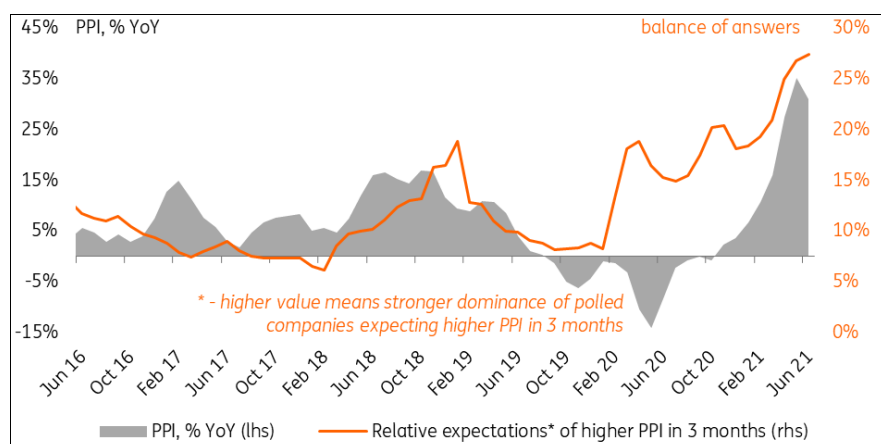
Consumers' inflationary expectations keep growing



Source: Bank of Russia, Rosstat, ING

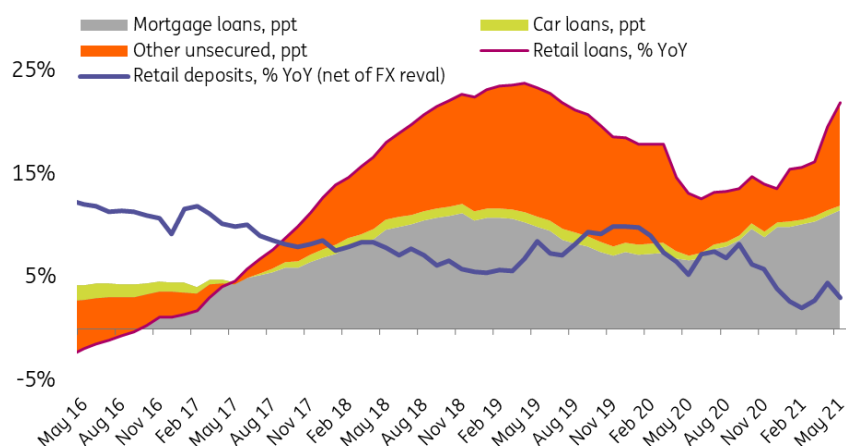
## Corporate inflationary expectations at historical highs

The Producer Price Index exceeded 30% YoY



Source: Rosstat, Bank of Russia, ING

## Household savings rates keep declining



Source: Bank of Russia, ING

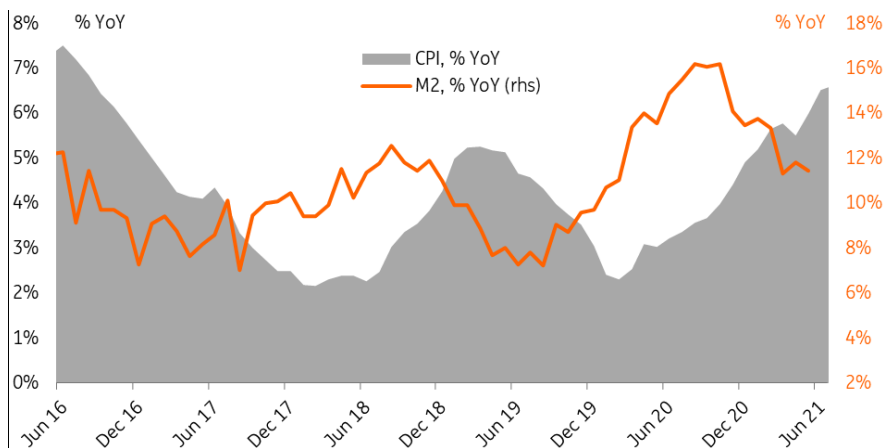
We see several factors limiting the key rate upside after 23 July:

- First, monetary inflation in Russia should moderate from September this year, or around 12 months after monetary supply growth had peaked, in line with historical sensitivity.
- Secondly, the risks in the food CPI segment seem to be stabilising thanks to global trends. We now see limited upside to our year-end CPI target of 5.7%.
- Thirdly, GDP growth prospects starting from the second half of this year appear less certain as the economy has reached pre-pandemic levels, outward tourism is reopening, while fiscal and monetary policy are becoming conservative and risks of a third wave of the pandemic are materialising.

According to the latest data, even though the vaccination rate in Russia improved in July, it is still at 22%, which is lower than the peer average of 34% (including 50%+ in the Czech Republic and Hungary), while the new infection rate is close to the second wave peak of 25 thousand per day and mortality is 700-800 per day, which is a historical high for the Covid pandemic locally (the second wave peak was in the 500-600 range). Finally, a 75-100 bp hike this Friday would lead to the ex-ante real key rate of above 2%, the upper border of the neutral policy stance, leaving some room for higher CPI expectations without the need to push the nominal rate higher.

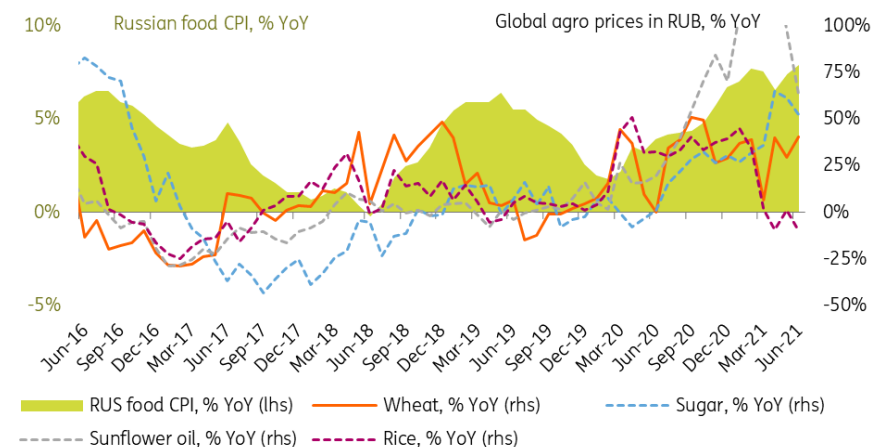
## M2 growth peaked around one year ago

This suggests an easing in monetary inflation starting in September



Source: Bank of Russia, Rosstat, ING

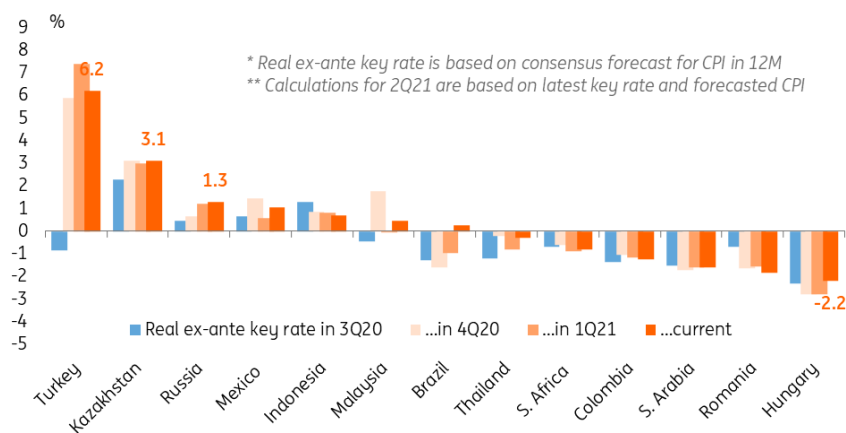
## Global food price growth is stabilising



Source: Rosstat, Refinitiv, ING

## Russian real rate is in the top 3 among its peers

It is, so far, within the CBR's neutral 1.0-2.0% range



Source: Bank of Russia, Refinitiv, ING

### Author

**Dmitry Dolgin**

Chief Economist, CIS

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

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