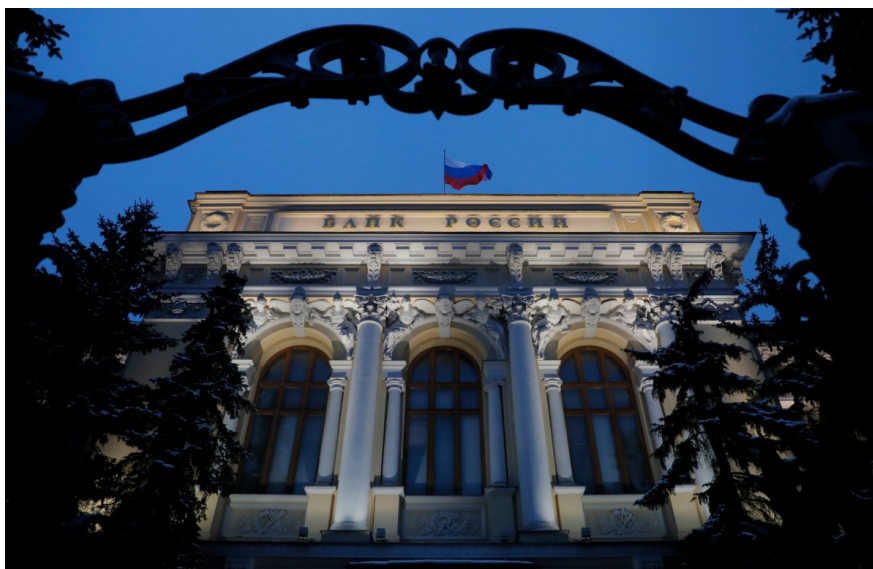


Russian key rate has further upside

The Bank of Russia brought another hawkish surprise, with a 50 bp hike to 5.0% and guiding for further increases this year. The forward guidance suggests that it would be reasonable to expect a further 50 basis points in hikes this year. However, with the 2021 CPI forecast increased by 1 percentage point to 4.7-5.2%, CBR is pricing in a pessimistic scenario.



The Central Bank of Russia headquarters in Moscow

5.0%

Russian key rate

a 50 basis point hike

Higher than expected

The Bank of Russia **increased** the key rate by 50 bp to 5.0% today. The consensus was split between 25 and 50 bp, but leaning towards a 25 bp hike, so the decision is hawkish.

Forward guidance is also hawkish, with the 2021 **CPI forecast up strongly** from 3.7-4.2% to 4.7-5.2%, shifting expectations of a return to 4% from the first half of 2022 to the middle of 2022. Moreover, the CBR is still optimistic regarding economic activity, still expecting 3-4%

GDP growth this year. Both forecasts could be attributable to extended travel restrictions recently imposed on Turkey, one of the most popular resort destinations for Russians, until at least 1 June.

The CBR indicated that it "will consider the necessity of further increases in the key rate at its upcoming meetings", which is a slightly softer language than the previous "holds open the prospect of further increases", but still suggests further room for increases.

Starting with today's BoD, the CBR has incorporated its expectation for the average annual nominal key rate for 2021-23 into the medium-term forecast. According to CBR, the average expected nominal key rate range for 2021 is 4.8-5.4%, which corresponds to a 5.0-5.8% range for the rest of the year. This suggests that the current nominal key rate of 5.0% is the lowest possible rate for the rest of the year, and that room for further hikes is potentially quite large. At the same time, the range for 2022 is 5.3-6.3%, and for 2023 is 5.0-6.0%, which suggests anchoring within the neutral range, assuming CPI eventually returns to the 4%

Based on the decision, commentary, and the updated medium-term forecast, it would be reasonable to expect another 50 bp in hikes this year, most likely in 2-3Q in 25 bp steps amid elevated CPI. Meanwhile, the CBR's expectations are not set in stone and in our view have room for downward revision in case of lower than expected CPI and GDP performance.

Based on 12-month market expectations for CPI, Russia's real key rate is around +1.0%, making it one of the highest in the EMEA space (after Turkey and Kazakhstan) and already within the neutral monetary policy range.

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