

Russia rate hike: Front-loaded action confirmed

The Bank of Russia has decided to front-load the normalisation of monetary policy, driven by the increase in near-term risks related to global markets, foreign policy, and the local fiscal stance. A further 25 basis point hike on 23 April appears to be a done deal. But the longer-term prospects are less certain, with various factors to watch



Russian central bank governor, Elvira Nabiullina

Source: Shutterstock

4.50%

Russian key rate

a 25bp hike

Higher than expected

The Russian key rate is up by 25bp to 4.50%. Consensus expectations had been for no change, but

following the recent pick up in CPI to 5.8% year-on-year at the beginning of March and the recent deterioration in the foreign policy backdrop, it was more of a [50/50 call](#). The action itself should not come as a surprise to us or to the market.

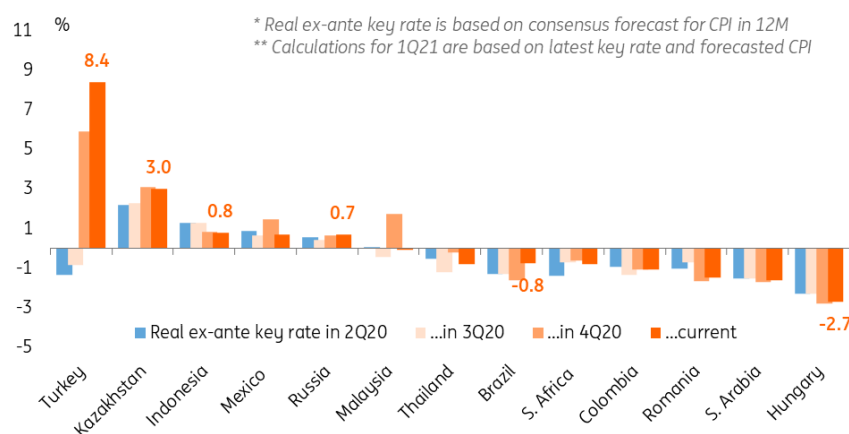
More importantly, the tone of the [commentary](#) has become more hawkish:

- The CBR holds "open the prospect of further increases in the key rate at its upcoming meetings", meaning most likely another hike in April.
- The bank expressed more confidence in the economic recovery, with local demand likely supported by extended travel restrictions.
- It also acknowledged higher foreign policy risks.
- And it pointed to additional inflationary risks from a potential flattening in the budget consolidation curve.

It appears that the CBR has indeed decided to front-load the normalisation of monetary policy, driven by various market developments including global bond market volatility, a deterioration in the foreign policy backdrop, and higher uncertainty regarding the local fiscal side following a [pick up in budget spending in the first two months of 2021](#) and indications by the Finance Ministry that they consider additional investment from the National Wealth Fund into local projects in the amount of US\$12-15bn in 2021-23.

Based on all the above, another 25bp hike on 23 April appears to be a done deal. However, we are looking forward to Governor Elvira Nabiullina's press-conference later today in order to see longer-term guidance. We note that following today's hike, Russia's real key rate, based on expected CPI in 12 months, is around +0.7%, which is higher than the mid-range of Russia's peers (from -2.7% in Hungary to +3.0% in Kazakhstan, with Turkey's +8.4% taken as a special case), and already close to the 1-2% level the CBR is willing to reach in the medium-term. Meanwhile, the strength of the local economic recovery still requires further confirmation, in our view.

Russian real rate remains stable relative to peers, above mid-range,



Source: National sources, Refinitiv, FocusEconomics, ING

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

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