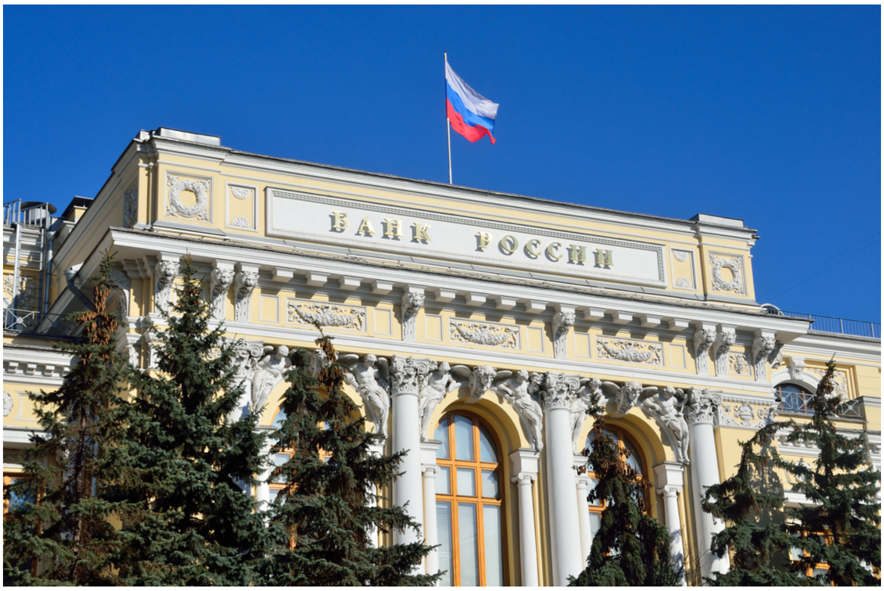
Russia: Key rate unchanged, cautious optimism prevails

The Bank of Russia kept the key rate at 7.75% and slightly improved the YE19 CPI outlook by 0.3 percentage points to around 5.0%. This is in line with our expectations but not as aggressive as some market participants hoped for. We believe the actual list of upside risks to CPI is longer than those listed by the CBR, making a rate cut before 4Q19 highly unlikely



Central Bank of Russia, Moscow

7.75% Russian key rate

As expected

The CBR's decision to keep the key rate unchanged at 7.75% is in line with the unanimous market consensus and our expectations.

Also as expected, the tone of the commentary has become more optimistic regarding the near-term CPI trend, as the monetary authorities mentioned:

- Current CPI at 5.3% YoY as of March 18 being below expectations, as the effect of a VAT hike (0.6-0.7 pp) has been smaller-than-expected and muted by the rouble's appreciation and a stabilisation in local gasoline prices
- Inflationary expectations by households and corporates have improved recently
- Global market conditions have improved materially year-to-date, thanks to a revision of the expected Fed rate trajectory

At the same time, the longer-term signal, having also improved, remained cautious. This is also in line with our expectations but might disappoint some market participants, who expected the CBR to return to the rate-cutting cycle soon:

- The CBR's year-end 2019 forecast has improved from 5.0-5.5% to 4.7-5.2%, which is in line with our expectations, but less aggressive than the 4.5-5.0% rate expected by some market participants
- The CBR reiterated that a full assessment of the VAT's inflationary effect will only be possible in 2Q19
- The CBR again cited uncertainty regarding the global risk appetite due to geopolitical factors and a potential slowdown of global economic growth
- The CBR mentioned that inflationary expectations, despite the recent decline, remain elevated and unanchored

We believe there are a couple of upside risks to CPI, which the CBR did not include in the official press-release but are still worth taking into account:

- Higher than expected capital outflows in 2M19 highlights the risk of reversal in the [currently disinflationary] RUB trend following a very successful 1Q19
- The local gasoline price freeze, which also prevented a stronger acceleration in overall CPI, expires next week, with no indication so far, that it will be prolonged
- The slowdown in household RUB savings growth to 5-7% YoY in nominal terms amid an acceleration in retail loan growth to 23% YoY points to pressure on the savings rate
- Social policy initiatives by the president, combined with the scheduled increase in public sector salaries later this year, suggests there is a possibility of a pick-up in consumer activity in 1H19, removing some of the current demand-side constraints to CPI growth later this year.

https://think.ing.com/articles/russia-key-rate-to-stay-775-at-least-until-4q19/

Overall, we see the CBR statement as confirmation of our cautious take, that despite the recent positive newsflow, any cut in the CBR key rate is unlikely before 4Q19.

Author

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

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