

Russian key rate up cautiously to 6.75%, hawkishness toned down

The Bank of Russia went for a cautious 25 basis point hike today, and slightly softened the tone of its commentary suggesting that, contrary to our recent fears, the medium-term key rate ceiling is likely at 7.0%. This is positive news for sentiment on the rates market, and more or less neutral for FX



Russian Central Bank Governor Elvira Nabiullina attends a press conference, Moscow, Russia

Source: Shutterstock

6.75 Russian key rate, %
a 25 basis point hike

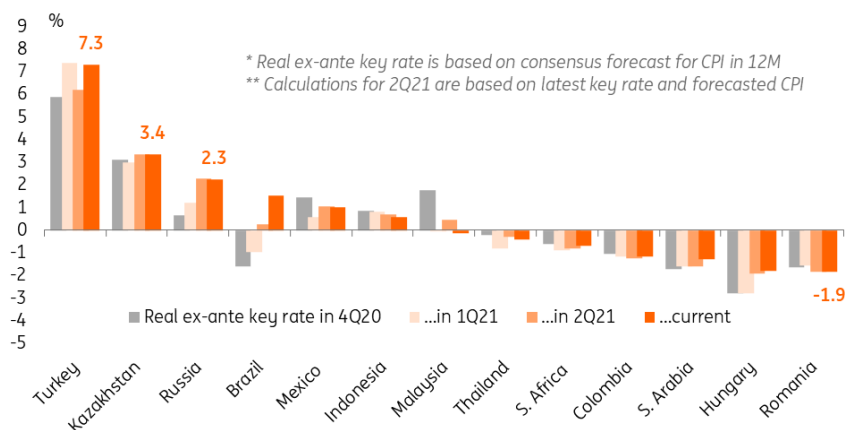
As expected

The Bank of Russia's decision to make a cautious 25 basis point hike to 6.75%, after a [100 basis point spike](#) in July, is in line with our [initial expectations](#), but is more modest than the 50 basis point consensus. The decision to return to the regular 25 basis point step comes despite the

negative surprise in the [most recent CPI data](#), which suggests that the elevated inflationary risks were already accounted for and front-run in the previous decision. Most importantly, the tone of the [commentary](#) slightly softened vs. the previous statement:

- The Bank of Russia sees Russian GDP growth returning to a balanced growth path.
- The balance of risks for inflation is still tilted to the upside, but the statement about the 'significant' shift has been dropped in the opening paragraph.
- The Bank of Russia now 'holds open the prospect of further key rate rises at its upcoming meetings' instead of 'considering the necessity of a further key rate increase'. Arguably this is a sign of slightly less certainty in further hikes, however, we note that following a similar 25bp hike and signal on [19 March](#), the CBR delivered a total increase of 225bp because of the material deterioration in inflationary expectations. The statement therefore suggests that further actions are unclear at this point and will be data-dependent.
- The CBR refrained from adjusting its inflationary forecast (5.7-6.2% as of year-end and return to 4.0-4.5% in 2022) and confirmed expectations of a CPI slowdown starting in 4Q21, the latter being in line with our expectations.
- The CBR indicated that monetary conditions in Russia slightly tightened, vs. the previous 'accommodative' assessment.
- We believe a more cautious stance by the CBR was prompted by the still-elevated health risks, as Russia's Covid-related mortality rate remains at historic highs while the vaccination rate at 30-31% is lagging behind most peers.

Figure 1: Russia's real key rate, based on expected CPI, is still in the top-3



Source: Bank of Russia, Reuters, ING

Ahead of governor Elvira Nabiullina's press conference today, we take the decision and the CBR commentary as a positive surprise to the interbank and fixed income market, which has been leaning towards a 50bp hike. We are somewhat surprised at the more relaxed tone of the commentary, which suggests that the risks of the key rate exceeding 7.0% in the medium term are lower than we thought. Nevertheless, the risks of the key rate entering the 7.0-7.5% range are not negligible and should be borne in mind, depending on CPI developments.

In terms of the FX market, despite the initial negative reaction in the ruble, we do not see

today's CBR actions as negative, as based on expected CPI in 12 months, Russia's real key rate is in the 2.5-3.0% range, keeping it in the top three of its peers (after Turkey's 7.0-7.5% and Kazakhstan's 3.0-3.5%), higher than that of Brazil, Mexico, Indonesia, and South Africa. From that perspective, the CBR's toning down of its hawkish bias is not a threat to the continuing portfolio inflows into the local currency public debt (OFZ). We reiterate our [constructive near-term view on the ruble](#).

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