

Russia's central bank guidance turns hawkish, no urgency to hike though

The central bank of Russia kept rates unchanged at 4.25% but sounded more hawkish. We think the central bank's growth forecast appear too aggressive to expect rate hikes before 2022 realistically, but higher than expected inflation and market volatility are indeed risk factors



Russian central bank governor, Elvira Nabiullina

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4.25 Russian key rate, %
Unchanged

As expected

Russian key rate remained unchanged today at 4.25%, in line with expectations, but the tone of

the [commentary](#) became more hawkish.

- The central bank sees no more scope for rate cuts amid higher than expected CPI trajectory, boosting the [year-end CPI forecast](#) from 3.5-4.0% to 3.7-4.2%, amid agro price pressure and lack of disinflationary effect of demand, also noting elevated CPI expectations by the households all of which is in line with our [view](#).
- A somewhat surprising part is that the Bank also indicated that it will 'determine the timeline and pace of a return to a neutral monetary policy', meaning that it is already discussing the timing of the return of the nominal key rate to the range of 5-6% if CPI stabilises around 4% CPI.
- The Bank mentioned supply-side pro-inflationary factors in Russia, such as labor shortage in some sectors.
- The central bank also didn't rule out that monetary policy in other countries could be tightened earlier than expected.

Overall, the commentary was focused on near-term trends, which still leaves some room for manoeuvring for the central bank, suggesting persistent uncertainty for the market in terms of the hike cycle timing. Governor Nabiullina [indicated](#) that the monetary policy stance will remain soft throughout 2021, and the normalisation will be gradual. This is in line with our estimate of current real key rate of 0.7% (based on expected CPI), which does not require an immediate increase.

Our base case suggests an unchanged key rate in 2021 and two 25 bp hikes in 2022, starting in June, amid expected stabilisation of CPI around 4.0%

We acknowledge, that the balance of risks to CPI are tilted upwards, especially given the resurgence of the global reflation story, stronger than expected inflationary pressure from the agriculture sector, the recent discussion on more fiscal support and an increase in foreign policy tensions - all challenging our expectations of no key rate hikes until mid-2022.

Meanwhile, key rate hikes do not appear to be an immediate prospect. The central bank's unchanged expectations of GDP growth of 3-4% YoY for 2021 despite better than expected 2020 GDP performance of -3.1%, is optimistic, in our [view](#), and suggests that any actual tightening is unlikely to take place before 2022, as long as CPI trend stabilizes after 1Q21 and global context does not deteriorate.

In our base case, we see an unchanged key rate in 2021 and two 25 bp hikes in 2022, starting in June, amid expected stabilisation of CPI around 4.0%.

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