Snap | 11 June 2021 Russia

## Russian key rate: up and up

Russia's central bank, the CBR, delivered on the 50 bp rise the market has been expected. But, surprisingly, it also made the commentary more hawkish, citing the necessity to keep going due to higher inflationary risks. Based on the wording, the range of the most likely key rate ceiling for this year has shifted from 5.5-6.0% to 6.0-6.5%



Elvira Nabiullina, Head of the Central Bank of Russia

5.50% Russian key rate

a 50 bp hike

As expected

## More hikes to come

The increase in Russia's key rate from 5.00% to 5.50% was in line with the market consensus and our <u>expectations</u>. But the <u>commentary</u> brought a hawkish surprise. In fact, we can't recall when the CBR has previously been so definitive in guiding for further increases in the key rate.

• The CBR indicated "the necessity of further increases in the key rate at upcoming meetings"

Snap | 11 June 2021 1 due to a material increase in the inflationary risks compared to the previous meetings.

- Current CPI, which accelerated from 5.5% YoY in April to 6.0% YoY in May and 6.15% YoY in the first week of June, is seen as only partially driven by temporary external factors, but mostly is, according to the monetary authorities, the result of fast narrowing of the output gap.
- While previously the CBR expected the current CPI spike to be temporary and gave guidance for CPI to return to the 4.0% target by the middle of 2022, now its expectations shifted to 2H22.
- Economic activity is also seen exceeding the CBR's expectations (full-year GDP growth expectations are at 3.0-4.0%) following a better than expected April result.
- The balance of inflationary risks has continued to tilt towards higher inflation, supported by elevated inflationary expectations by households and corporates.
- Potential disinflationary factors should be assigned with low weight, as the reopening of borders, which could potentially bring some relief to local inflationary pressure, seems to be postponed till later.

The upcoming CBR governor's <u>press conference</u> may bring further detail, but the written statement so far gives little room for guesswork in terms of further key rate prospects. We believe the **next meeting**, which will be accompanied by an update of 3-year macro forecasts:

- will bring another 25-50 bp hike,
- further upward revision of the 2021 CPI forecast (currently at 4.7-5.2%),
- and of the expected key rate path.

We believe the range of the most likely key rate ceiling for this year has shifted from 5.5-6.0% to 6.0-6.5%. The lower end of this range could be found satisfactory in case there are no further negative surprises on the CPI front. That could be helped by continued ruble strength and some cooling in the economic activity amid the new wave of Covid infections, which seems to be now catching up with Russia.

We also note, that even if the nominal CBR key rate exceeds the 5-6% range, it will not automatically mean that that the monetary policy stance will turn restrictive. First, this range is not applicable for the short-term considerations. Second, it only makes sense in a stable 4.0% CPI environment. Third, the neutral real key rate of 1-2% should be calculated based on expected CPI, and assuming longer term CPI expectations shift from current 4.0% to 4.5-5.0% (in line with our long-term view), a 6.0-6.5% key rate would still mean a neutral monetary policy stance.

Nevertheless, in the near term, the hawkish signal by the CBR should be taken positively by the FX market, creating a scope for improvement in our USDRUB73-75 expectations for 2H21.

**Author** 

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

Snap | 11 June 2021 2

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Snap | 11 June 2021 3