

Russian Central Bank Makes Surprise Rate Hike to Fight Inflation

By [The Moscow Times](#)

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Russia's central bank unexpectedly raised its key lending rate at a regular meeting, hiking the key one-week minimum auction repo rate by 50 basis points to 7.5 percent in response to inflationary risks.

"The Bank of Russia does not intend to lower the key rate in the coming months," the bank said in an accompanying statement.

The central bank had been expected to keep rates on hold this month, having raised its key rate by 150 bps in March in response to financial instability linked to the political crisis in Ukraine.

The March hike came after President Vladimir Putin received parliamentary authorization to use military force in Ukraine prior to its annexation of Ukraine's Crimea region.

Russia launched army drills near the Ukrainian border on Thursday after Ukrainian forces

killed five pro-Moscow rebels.

The central bank said its decision on Friday was due to inflationary risks linked to the weakening ruble.

"The probability of inflation exceeding the 5.0 percent target at the end of 2014 has increased substantially. This has been caused by more pronounced than expected pass-through effect of the exchange rate dynamics on consumer prices," it said.

The bank added that inflation stood at 7.2 percent on Apr. 21. Although the bank is formally allowed to deviate by 1.5 percentage points either side of its 5 percent, it has forecast inflation at between 5 and 6 percent by year-end.

On Friday, it said inflation was likely to end the year at the upper end of that range.

"The Bank of Russia estimates that the adopted decision (on the key rate) would ensure the decline in inflation to no more than 6.0 percent by the end of 2014," it said in its statement.

The surprise rate hike comes despite a severe economic slowdown which saw Russia's economy grow by only 0.8 percent year-on-year in the first quarter.

"The current economic slowdown is predominantly structural by nature and thus does not exert any noticeable downward pressure on inflation," the bank said.

The ruble strengthened immediately after the decision, but then weakened towards its levels before the rate hike.

At 10:15 GMT the ruble was at 35.96 against the dollar, down 0.5 percent on the day.

See also:

[Standard & Poor's Downgrades Russia's Credit Rating to BBB-](#)

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