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INDEPENDENT NEWS FROM RUSSIA

Russia's Inflation Hits Historic Low in October

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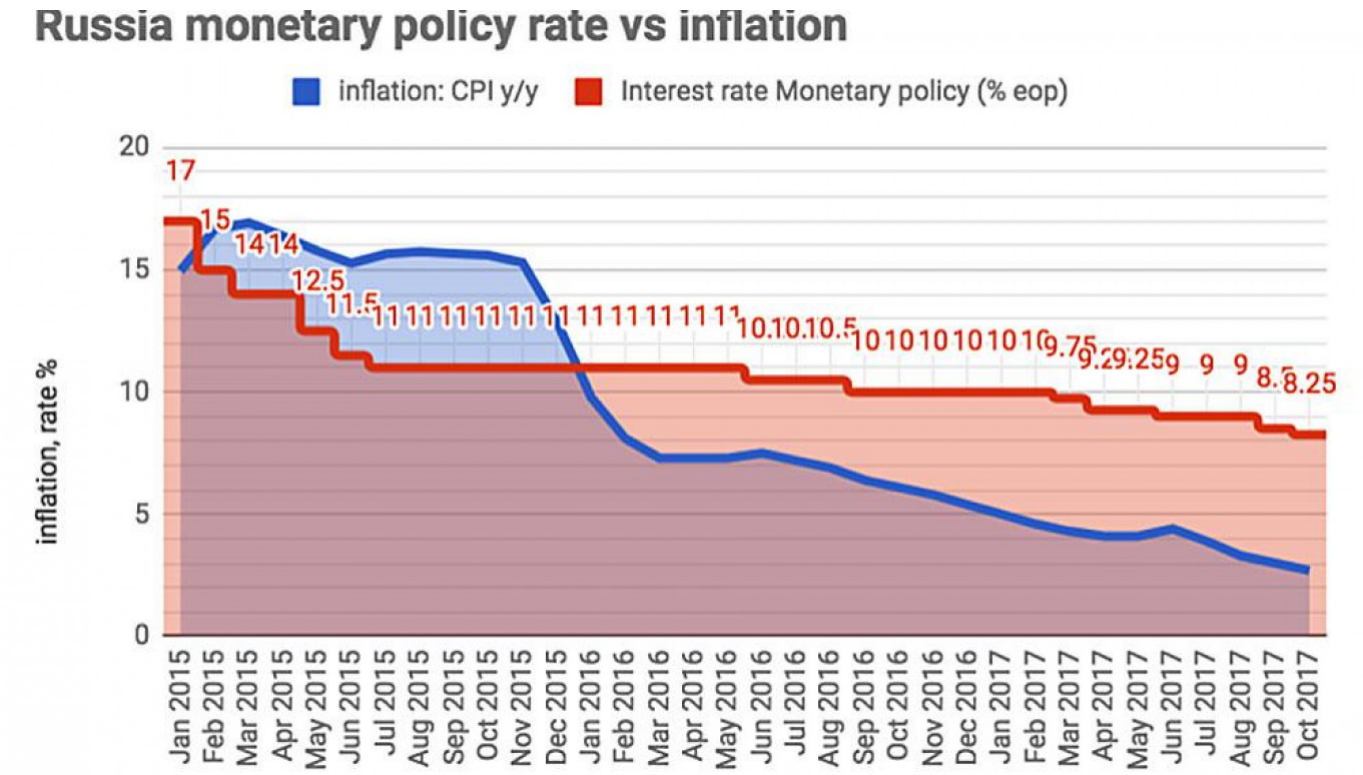

Russia's Consumer Price Index (CPI) in October fell again to an extraordinary low of 2.7 percent year-on-year, down from the already low 3 percent in September, the government's Rosstat statistics agency said on Nov. 7.

Inflation has been overshooting the Central Bank of Russia's target of 4 percent set for 2017, diving from double-digit price growth in less than two years.

However, the CBR keeps pointing to stubborn inflationary expectations and sticks to moderately tight monetary policy despite the pressure from the government to support growth with lower interest.

The current rate is by far the lowest in post-Soviet history but the population remains stubbornly convinced that the fall is temporary, according to the CBR surveys.

The CBR decided to cut the key interest rate by 25bp at the board of directors meeting on Oct. 27, in line with the expectations.

A more aggressive cut of 50bp would have meant that the CBR could prepare to tighten the policy again in the beginning of 2018, some analysts suggested. However, the CBR decided to abstain from an aggressive move and cut the rate by the minimum step of 25bp to 8.25 percent.

Last week Alfa Bank said, "at the moment we do not agree with the government's concerns that low inflation is the result of the tight monetary policy of the CBR."

The analysts that forecasted inflation easing to 2.8 percent in October maintained that "medium-term inflationary risks are considerable and that the CBR should thus not accelerate interest rate cuts."

However, VTB Capital argued prior to the new numbers that "the incoming data for October and November might nudge the Board to opt for a more ambitious cut of 50bp," while noting that "this would call for surprises from inflation reports, banking stats and economic activity data to combine into a convincing case."

The CBR expects inflation to end 2017 at 3.5-3.8 percent, while the Ministry of Economic Development that needs lower interest rates to help its ambitious 2.1 percent growth outlook expects 2.7-3.2 percent inflation in 2017.

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