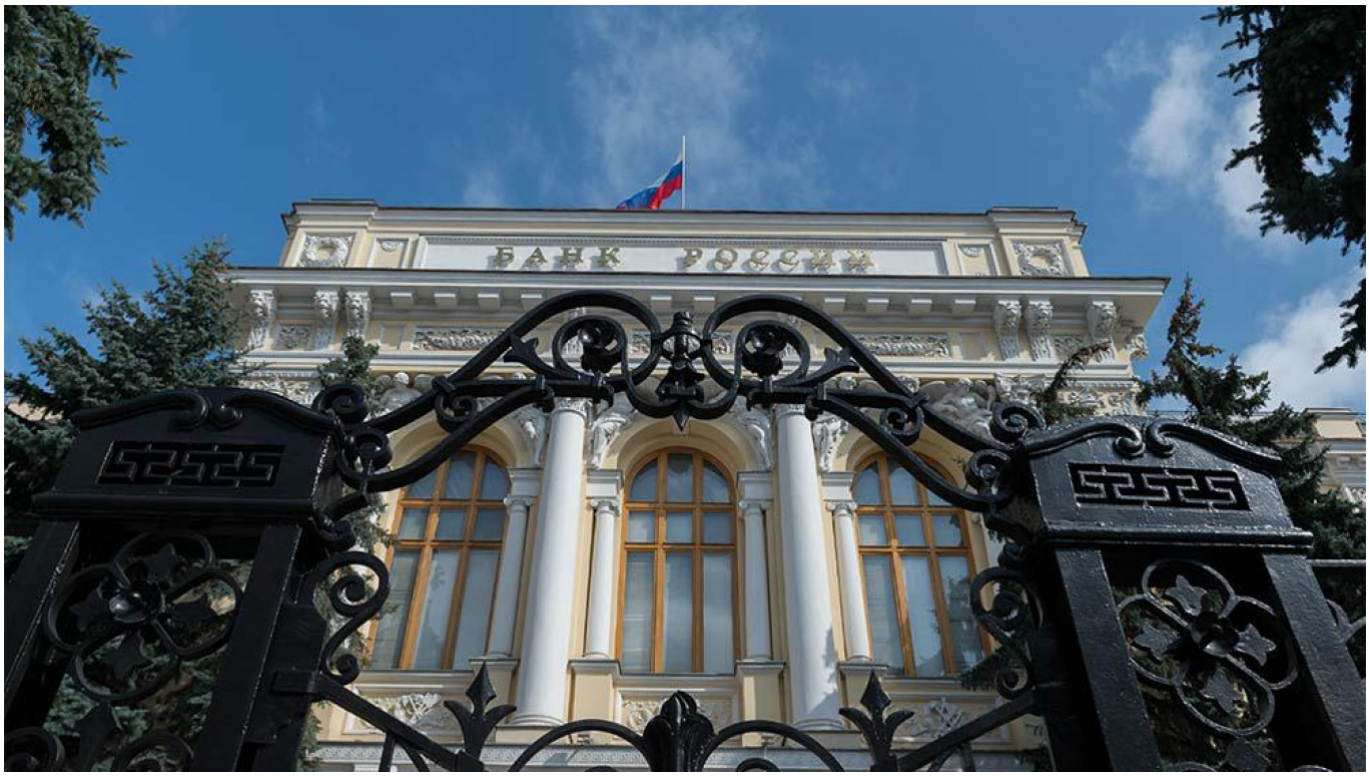
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Bank of Russia Says Inflation Drop Doesn't Mean Bigger Rate Cut

The bank is expected to cut the interest rate on July 26.

By Bloomberg

July 18, 2019



Prices were unchanged from May for the first time in the history of observations. **Anton Belitsky / TASS**

The sharpest slowdown in inflation in almost two years won't be enough to persuade the Bank of Russia to return to half percentage-point interest rate cuts when it meets next week.

"A more sizable cut may be justified only if incoming information leads to a considerable change in forecast," Alexey Zabotkin, head of the monetary policy department at the central bank, said in an interview in Moscow. "So far, there have been no big surprises in the data."

The central bank reduced the rate by 25 basis points at the meeting in June and is expected to take a similar step on July 26. Smaller cuts are preferable because they allow more room for adjustments when new information comes in, according to Zabotkin, who reports directly to Central Bank Governor Elvira Nabiullina.

“There should be weighty arguments to move to a 50 basis-point step,” Zabotkin said.

Plans to raise government spending starting later this year could pose a particular threat to the inflation outlook, he said.

Nabiullina earlier said that the bank isn’t ruling out a 50 basis-point cut this month because pro-inflationary risks will likely be limited in the next 6-12 months. Russian policy makers cut by half a percentage point five times in 2016 and 2017, but haven’t used the option since then.

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Inflation eased more than expected to 4.7% in June from a year ago after an early harvest helped prices for some vegetables. Prices were unchanged from May for the first time in the history of observations, Zabotkin said.

“Overall, even if we strip out the effect of fruit and vegetable prices, the June results point to a further stable inflation slowdown,” Zabotkin said. “The inflation situation is developing in line with forecasts.”

On a seasonally adjusted annualized basis, inflation will stay around the current level near 4%, Zabotkin said. Still, the central bank is sticking with its forecast of 4.2%-4.7% for the end of the year after cutting that outlook last month from its earlier expectation of 4.7%-5.2%, he said.

Inflation eased further to 4.5% as of July 15, the Economy Ministry said in a report Thursday.

The central bank will also consider keeping rates on hold at 7.5% this month, Zabotkin said, but only two economists out of 22 in a Bloomberg survey expect it to go for that option. One expects a half-point cut and the rest forecast a 25 basis-point reduction.

Economic growth has come in below expectations, at 0.7% in the first half, down from 2.3% in 2018. The Economy Ministry cited several signs of weakness, ranging from the sharp slowdown in inflation and job-market softness to a drop in imports despite a stronger ruble.

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