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Russia's Central Bank Cuts Interest Rates on Economic Fears

Rates slashed to 6.5% on weak inflation, slow growth and global risks.

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The Bank of Russia signalled more rate cuts could be on the way. **Evgeny Razumny / Vedomosti / TASS**

The Bank of Russia has cut interest rates to 6.5% on the back of low inflation, weak domestic growth and fears of a global slowdown.

The central bank said further rate cuts could be on the horizon if inflation, which it expects to come in between 3.2-3.7% this year, does not pick-up.

Announcing the cut from 7%, the bank said: "[The] inflation slowdown is overshooting the forecast, inflation expectations continue to decrease, the Russian economy's growth rate still remains subdued [and] risks of a substantial global economic slowdown persist."

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The bank also pointed to the government's "persistent delay" in spending on its $400 billion National Projects program of infrastructure investment as a reason for weak demand across the economy.

It said: "since the beginning of 2019, fiscal policy has had a constraining effect on economic activity. This is in part related to a slower than expected implementation of National Projects planned by the government.

The bank's official target for the inflation rate is 4% — the level recorded in September. However, it expects it will continue to fall, dropping below 3% at the start of next year.

"If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' meetings," the bank said. The next meeting will take place on 13 December.

Ahead of the decision, analysts were divided on whether the bank would cut to 6.75% or 6.5%, following on increasingly dovish remarks from the bank's governor Elvira Nabiullina in recent weeks.

Anton Pokatovich, an analyst at BCS said the likelihood of a cut to 6.25% in December was almost a coin-toss, while he did not rule out interest rates hitting 6% before the end of the year.

Nordea's chief Russia economist Tatiana Evdokimova said on Twitter: "There is no mention of a neutral rate in the press release [and] there are few signals about the future path. The Central Bank wants maximum freedom of action when making further decisions."

The ruble was unmoved on the news, trading at 63.9 against the dollar.

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