

Russia's Central Bank Cuts Rates and Warns of Deep Recession

Russia slashed interest rates to their lowest level since 2012 as the Central Bank published its first official prediction of the economic damage of the coronavirus.

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The Central Bank has published its first official forecast of the economic fallout of the coronavirus.
Andrei Nikerichev / Moskva News Agency

Russia's Central Bank has [cut](#) interest rates to their lowest levels since 2012, and warned the Russian economy could shrink by 6% this year.

The decision — widely [expected](#) by the markets — to cut the key interest rate to 5.5% from 6% is the first shift in monetary policy from governor Elvira Nabiullina since the outbreak of the coronavirus pandemic. She said further rate cuts were not off the table.

The Central Bank warned that Russia should brace for a hard economic shock as a result of both the economic lockdown at home and the collapse in global demand for energy, which has

sent [oil prices](#) down 70% this year. It predicted that GDP will fall by 4–6% in 2020, in the first public [forecast](#) of the economic damage from the coronavirus published by the Russian authorities.

A fall of that size would effectively wipe out all Russia's economic growth since the 2015 crisis. The prediction is in line with others made by groups such as the International Monetary Fund (IMF), although some economists [warn](#) the picture is deteriorating rapidly and that Russia could be in for a crash of at least 10%.

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Nabiullina added that Russia would see its first current account deficit in more than 20 years as the Bank predicted the value of Russia's exports — mainly oil — will drop by more than 10%.

Analysts said the dovish tone from the Central Bank suggests Nabiullina is likely to make further rate cuts later this year.

Anton Pokatovich, senior analyst at BCS Premier said: “The bank has given a fairly clear signal that it is ready to further reduce the key rate, stating that monetary policy is moving into the easing zone. This decision is completely appropriate in the current reality, and there are no significant obstacles to further cuts to 5% later this year. In the current conditions, we would not rule out a rate cut below 5%.”

The governor also revealed the Central Bank's assessment that the [program](#) of support unveiled by the government so far provides support of around 2% of GDP, and reiterated her [frustration](#) at the slow pace with which banks were issuing state-backed cheap loans to businesses.

The ruble gained slightly on the announcement, climbing 0.8% to 74.2 against the U.S. dollar.

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