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INDEPENDENT NEWS FROM RUSSIA

Russia Hikes Interest Rates in Battle to Tame Inflation

The regulator raised interest rates to 5% in a meeting Friday.

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Russia's Central Bank is balancing the need to control inflation without disrupting the economic recovery. **Evgeny Razumny / Vedomosti / TASS**

Russia has raised interest rates in a bid to stem accelerating inflation which threatens to undermine its economic recovery.

The Central Bank hiked rates to 5% in a meeting Friday, an increase from the previous level of 4.5%, and the second hike following an increase at the bank's rate-setting meeting in March.

Inflation has accelerated to 5.8% — well above the bank's official 4% target — this year, and the Kremlin has rolled out price caps for certain food products in a bid to keep surging supermarket bills in check.

Friday's increase was at the top end of analysts' expectations, with the bank confirming it was initially torn between raising rates to either 4.75% or 5%, opting for the latter.

The ruble climbed on the news, hitting its highest level against the U.S. dollar in a month.

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Central Bank head Elvira Nabiullina said the decision was based on the “fast recovery” across the wider economy. She expects Russia’s economy to hit its pre-coronavirus size in the second half of this year — a feat which would be one of the world’s quickest turnarounds.

The economy shrank 3% last year, cushioned by the large footprint of the government and Russia’s choice not to lockdown the economy in the second half of the year despite a surge in coronavirus cases and fatalities.

“Vaccinations and the lifting of lockdowns have seen the economic recovery continue, with retail sales growth having already reached pre-coronavirus levels in the first quarter,” said Sova Capital’s chief economist Artem Zaigrin.

“Turnover in the services sector has been actively recovering as well, with producers mentioning a nearly full recovery of demand in Central Bank polls, which in turn has raised investment outlooks,” he added.

But the pace of the recovery has translated into “steady inflationary pressure,” Nabiullina said, as she significantly revised up the bank’s inflation forecasts for the rest of the year.

“This is a matter of our great concern. Amid these inflation processes, we need to return to neutral policy faster than we assumed before,” she added.

“Neutral policy” refers to an interest rate the Central Bank believes is neither too low that it drives inflation, nor too high that it saps growth. Economists estimate that is between 5% and 6%. They expect the regulator will raise rates again in the coming months.

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