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Russia's Third Wave Unlikely to Faze Central Bank

Governor Elvira Nabiullina "dead set" on bringing inflation down, despite rising coronavirus numbers and hospitalizations.

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Russia's Central Bank Governor Elvira Nabiullina is unlikely to let new coronavirus restrictions delay rate rises. **Bank of Russia / cbr.ru**

Russia's Central Bank is set to continue hiking interest rates, analysts predict, despite the country rolling out a host of new restrictions and an unprecedented mandatory vaccination campaign to quell a surge in Covid-19 cases.

Authorities in Moscow on Tuesday announced a fresh set of restrictions in the capital, cancelling events with more than 500 attendees and banning unvaccinated residents from visiting restaurants, bars and cafes without a negative test result, as the spread of the Delta variant has led to a rise in hospitalizations.

But analysts said the new restrictions, possible economic slowdown and worrying case

numbers were unlikely to deter Russia's Central Bank from raising interest rates as it fights its own battle against increasing inflation.

"The Central Bank is pretty dead set on getting the key rate higher" ING Russia economist Dmitry Dolgin told The Moscow Times. "A hike looks inevitable for July."

In a series of increasingly hawkish decisions, Russia has raised its key interest rate from 4.25% at the start of the year to its current level of 5.5%. Earlier in June, Central Bank Governor Elvira Nabiullina spoke in some of her strongest words to date about the inevitability of future interest rate rises as she struggles to bring inflation — currently running at 6% — back down to the bank's 4% target.

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Moscow has also rolled out a mandatory vaccination program, requiring the city's service businesses to ensure 60% of their workforce are vaccinated within the next few weeks, and told all firms that a third of their unvaccinated workforce must stay home.

But the measures fall far short of a full lockdown and economists say they are unlikely to trigger a Central Bank reassessment of the balance between reining in inflation and supporting the economy.

"As long as we don't have tough restrictions affecting business I don't think the Central Bank will respond to the recent developments," said Dmitry Polevoy, Investment Director at the Loko Invest brokerage.

"Things may change quickly, but for now we still think they will be choosing between a 25 and 50 basis point increase in July." A 50 basis point hike would take rates back to their pre-coronavirus level of 6% and be a big step on Nabiullina's path to "normalize" rates and avoid a potential overheating of the economy.

"It doesn't look like it'll be a full-scale lockdown — just some very pointed restrictions," Renaissance Capital's Sofya Donets, a former Central Bank staffer, told The Moscow Times. "In that sense, it means we're not talking about a very dramatic effect on the trajectory of the economic recovery. The recovery will be uninterrupted by this third wave — but the inflation pressure will remain."

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The next date for a possible rate hike is July 23, when the regulator will also update its closely watched economic forecasts and give a detailed assessment of Russia's economic recovery. Nabiullina recently said Russia has already hit its pre-coronavirus size and warned of possible overheating in a number of sectors.

By then, the regulator will have a clearer idea of how Russia's latest restrictions — which are being added to at an almost daily rate in Moscow — have hit Russia's economy. The country was better shielded than developed countries during the initial outbreak of the virus due to factors which were previously pointed to as a major economic drag — the country's large

state sector, low numbers of smaller enterprises and small share of service businesses.

With the latest restrictions in Moscow focused mainly on the service sector, and as global demand for oil continues to climb back, Russia's economy should again be protected from a domestic rise in cases, giving the Central Bank cover to react to new inflation data, which is poised to show annual price rises climbed even higher during June.

But as Moscow scrambles to open thousands of new hospital beds and regions around the country adopt their own mandatory vaccination campaigns, uncertainties remain.

"The key question now is how binding the new restrictions could be," said Sova Capital's Chief Economist Artem Zaigrin.

"It may take at least one to one-and-a-half months to immunize enough of the population — if everything goes as planned in all the regions. ... If we see new lockdown measures being applied all over the country with a significant hit on consumption, then the Central Bank might slow the tightening pace and even temporarily cut the key rate."

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