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Russian Economy at Risk of Overcooling, Sberbank Executive Warns

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Denis Voronin / Moskva News Agency

Russia's economy is at risk of cooling down excessively amid a prolonged period of high interest rates and could face challenges returning to a growth path, a top executive at Russia's largest lender, Sberbank, has warned.

"There is a danger of the economy overcooling and that we may not be able to come out of this slump, and further growth could be very restrained," Sberbank First Deputy CEO Alexander Vedyakhin told Reuters on Wednesday.

Vedyakhin projected Russia's GDP to grow just 1 to 2% this year, less than the government's projection of 2.5%.

Russia's Central Bank lowered its key interest rate to 20% from a historic high of 21% this month, attempting to keep inflationary pressure from the overheating war economy at bay while responding to growing political pressure to ease borrowing costs.

“My sense is that, most likely, the Central Bank's key rate could be around 17% by the end of this year. I don't think the Central Bank will sharply reduce the rate as there is a risk that inflation could rise again,” Vedyakhin said.

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He argued that a more meaningful rate cut is needed to stimulate recovery.

“An intelligent investor with such an EBITDA margin could undertake new projects. I believe that a rate below 15%, that is, roughly speaking, 12-14%, is already a good level for the economy to start reviving, growing and moving forward,” he said.

Vedyakhin also pointed to what he described as an overvalued ruble. He attributed the currency’s strength to high interest rates, a weakened domestic foreign exchange market, logistical difficulties, payment issues and foreign currency sales from the fiscal reserve.

“In the view of our analysts, the ruble is currently overvalued. If everything were relatively balanced, given the current oil prices and macroeconomic factors, it should be at the level of 90-95 per dollar,” he said.

The remarks come as high-level officials express concern over the country’s economic trajectory.

Kremlin Deputy Chief of Staff Maxim Oreshkin recently said that Russia’s current growth model has “exhausted itself” and called for a leap to a more advanced technological and organizational level.

President Vladimir Putin has also acknowledged the cooling trend, urging government officials to act carefully and avoid “excessive cooling, like in a cryochamber.”

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