

January 29, 2016

The Bank of Russia predictably decides to retain the key rate

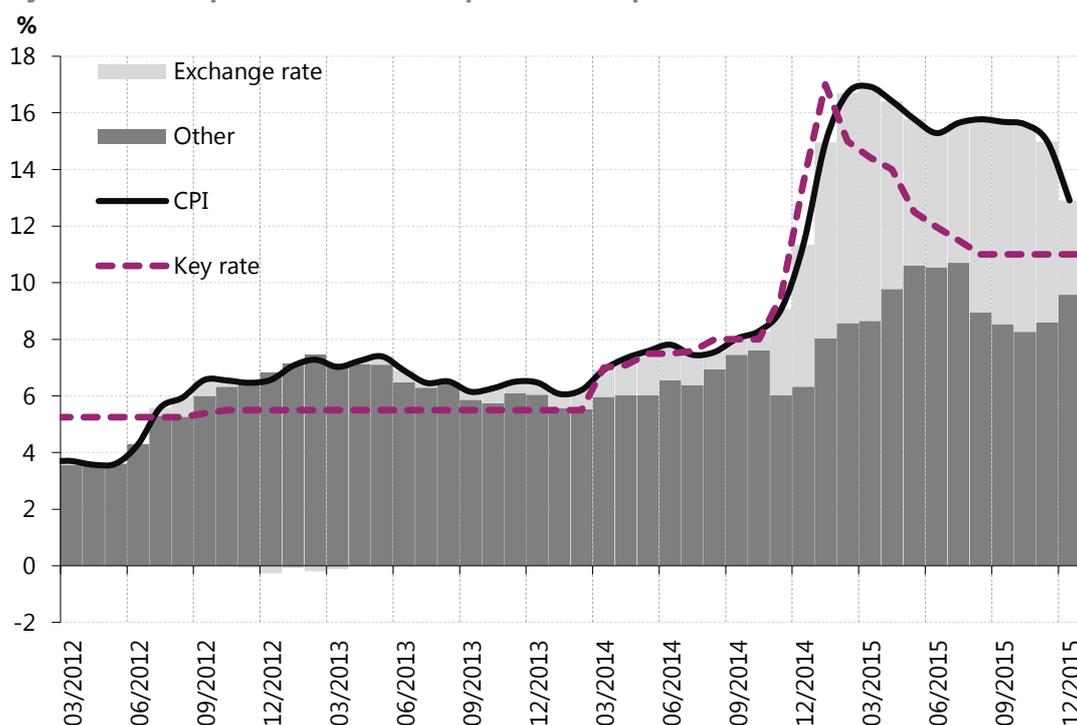
On 29 January the Bank of Russia decided to retain its key rate at 11%.

Despite the fact that from the end of 2015 there was a substantial inflation slowdown, other decision-making factors put together were likely to have outweighed this positive, but rather unstable trend. According to the Bank of Russia, the major risk for price stability emerges from volatility in oil prices. This opinion is reasonable taking into account the main triggers for the current inflation spike.

In accordance with ACRA estimates, the current inflation growth can be more than 70% accounted for by the exchange rate pass-through effect. In the current oil market conditions such a spike, at a smaller scale, can recur. Retaining the key interest rate will make it possible to reduce risk of additional negative impact on the ruble exchange rate and inflation if there appear to be more incentives to make short-term savings in a foreign currency.

**Exchange rate
is the prime driver
of inflation dynamics**

Key interest rate performance and depreciation impact on CPI



Source: CBR, ACRA estimates

ACRA experts believe that within half a year, as inflation slows down, the Bank of Russia may get back to the issue of the key interest rate reduction.

In the current situation the key interest rate hike is scarcely possible unless it is unscheduled, that is when there appears to be a risk of deposit dollarization or excessive demand for foreign or national currency in cash. Delayed reduction of the key interest rate affects loan volumes and pricing and has a negative impact on industries depending on short-term loans.

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