

Russian Central Bank Unveils Largest Rate Hike in 7 Years

Bank opts for rare move of raising key rate by full percentage point as inflation pressures show little sign of slowdown.

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Central Bank head Elvira Nabiullina has acted decisively in an attempt to bring down inflation. **TASS**

Russia's Central Bank has announced its largest interest rate hike in seven years as the regulator continues to struggle to tame surging inflation.

At a rate-setting meeting in Moscow on Friday, the Central Bank [decided](#) to raise its key interest rate by a full percentage point, taking it back above pre-coronavirus levels to 6.5%.

The move of 100 basis points was the single biggest increase since the 2014 economic crisis when the Central Bank was grappling with tumbling oil prices, international sanctions and a rapidly devaluing ruble.

The Russian ruble strengthened slightly on the announcement, which was widely expected by

markets following comments earlier in July by key bank officials about the possibility of a dramatic hike in a bid to quell surging inflation.

Russia's inflation rate is currently running at a five-year high of 6.5% — well above the Central Bank's 4% target — and has [threatened](#) to undermine political support for the Kremlin ahead of important parliamentary elections scheduled for September. Prices for stable goods are rising “substantially” faster than 4% per year, the bank said in a statement.

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Consumer demand is rising significantly faster than manufacturers' production capacities given pandemic-related global supply chain disruption, the Central Bank said. It also said the exodus of labor migrants from Russia since the pandemic was creating employment shortages which push up wage demands, creating an inflationary cycle of higher spending by consumers and higher costs for businesses.

In a press conference following the announcement Governor Elvira Nabiullina highlighted that Russian society's “unanchored inflation expectations” are posing a stubborn challenge and could undermine her attempts to bring price rises under control. Russians routinely say they believe inflation is much higher than the official rate, and the gap between recorded inflation and consumer expectations has hit historic highs this year.

Economists said Friday's move was “aggressive” but could signal the beginning of the end of the Central Bank's policy of raising rates from their recent historic lows.

“The Central Bank did not settle for half measures and reconfirmed its determination to get inflation back on the right track,” said Aton analyst Konstantin Svyatny. “At the same time it softened its stance about steps it might take in the future.”

Independent economist Tatiana Evdokimova said it appears the bank decided to “front-load” its rate increases, opting for a dramatic move now in a bid to shake the markets rather than a series of more gradual steps.

Economists at the bank also increased its growth forecast for the Russian economy, saying it now expects GDP to expand by 4-4.5% in 2021. Russia's economy returned to its pre-coronavirus size earlier this year.

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