

Russia Sharply Hikes Rates in Desperate Battle With Inflation

The Central Bank has raised interest rates to their highest level in four years as inflation threatens fragile pandemic recovery.

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Central Bank Governor Elvira Nabiullina has been warning about the problems with inflation throughout 2021. duma.gov.ru

Russia's Central Bank has raised interest rates for the seventh consecutive time as the country struggles to tame surging inflation, which has jumped to above double the official target.

The regulator hiked its key rate by a full percentage point Friday, taking borrowing costs to 8.5%, their highest level in four years.

Inflation has risen sharply through 2021 and is now running at 8.4% — or more than twice the bank's official 4% target — and the bank has taken an [aggressive approach](#) in its battle to stop price rises from running out of control.

Rate increases of a full percentage point are rare, but Friday's decision was the [second](#) such hike in the past six months — an indication of how serious the Central Bank is taking the inflation problem.

President Vladimir Putin has said inflation is the top issue facing Russian households, who are already strained by eight years of economic crisis and low growth, while governor Elvira Nabiullina has called rising prices an “economic disaster.”

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The Kremlin's economic policy of trying to shield the Russian economy from possible sanctions and pull back from the global economy has pushed living standards down for Russian households — more than 40% of which say they have no savings cushion whatsoever.

Price rises have [repeatedly](#) surpassed economists' expectations this year, and analysts are now warning of future increases in food prices early in 2022 due to a weaker-than-expected agricultural season in Russia.

In its statement announcing the rate hike Friday, the Central Bank warned of a possible “substantial and prolonged upward deviation of inflation from the target” of 4% a year, pointing to the “dominating influence of inflationary factors” in the economy.

A survey published Thursday, hours before the Central Bank announced its rate hike, showed inflation expectations for the year ahead — an indicator closely watched by the regulator — had shot up to almost 15%. Another measure showed Russians believe inflation is running at almost 18% — twice the official level recorded by the country's statistics agency.

Nabiullina has repeatedly warned of a possible inflationary spiral, where Russians' fears of inflation push them to bring forward purchases as they fear future price rises, thus artificially pushing up demand and causing prices to rise even more.

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The Central Bank said it would consider more rate hikes in early 2022 if inflation does not start to come down.

After a rapid recovery from the initial phase of the coronavirus, Russia's economy has again started to slow under the pressure of inflation, new coronavirus restrictions and the global supply chain crunch.

Nabiullina also said Russia's historically low unemployment rate and labor shortages could add inflationary pressure in the coming months.

“Demand for the labor force is growing in many industries. At the same time, many sectors show labor shortages,” she said in a statement, adding that if Russia is to hit its ambitious growth targets in the coming years, it will need to rapidly boost [productivity](#).

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