

Russia Hikes Interest Rates Again, Warns of ‘Overheating’ Economy

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Russia’s Central Bank raised interest rates by a full percentage point to 9.5% on Friday in its latest attempt to tame surging inflation and prevent the economy from “overheating.”

The hike is the second time in a row the regulator has made the rare move of increasing its key rate by a full point, and the eighth consecutive rise. It takes borrowing costs to their highest level in five years.

Amid an otherwise strong recovery from the coronavirus recession, Governor Elvira Nabiullina warned that Russia’s economy is overheating and inflation could spiral out of control.

“If we take no measures to drive the economy back to a balanced growth path, the overheating will increase, causing an uncontrollable acceleration of inflation and a subsequent slowdown of economic growth, or even a recession,” she said, adding that [“geopolitical risks”](#) — code for Russia’s standoff with the West over Ukraine — were also

exacerbating the situation.

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The Central Bank's aggressive attempt to stem rising prices across the economy followed an 8.7% year-on-year increase in [inflation](#) in January, the highest yet recorded since a period of rapid price rises began 20 months ago. The largest contributor to surging consumer prices was the cost of food, which has risen by 11.1% over the last year, according to Russia's federal statistics agency.

The Bank warned inflation will take longer than expected to return to the country's 4% target — a level Nabiullina said would not be reached before the middle of 2023.

Nabiullina also said that the Central Bank has no plans at the moment to resume its regular purchases of foreign currency, following its decision to [suspend](#) the purchases — of up to \$500 million a day — amid a rapid depreciation of the Russian ruble last month.

Under what is known as the “fiscal rule,” the government typically buys foreign currency using oil and gas revenue in order to shield the ruble from volatility stemming from fluctuating commodity prices. Nabiullina gave little indication as to when the purchases, which are mandated under Russian law, will resume.

The regulator told markets to expect further rate increases in the coming months, and stressed that these would take time to have the desired effect of reining in inflationary pressures across the economy.

Nabiullina also called on banks to raise rates on savings and deposit accounts, saying this would help bring down public concerns about rising prices, which Russians say is the biggest problem facing the country.

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