

Russian Central Bank Holds Rate at 7.5%, Hints Future Increases

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Russian Central Bank Governor Elvira Nabiullina. duma.gov.ru

Russia's Central Bank on Friday <u>extended</u> its interest rate pause, the longest in more than seven years, as inflation pressures sparked by Moscow's invasion of Ukraine continued to loom over the economy.

The Central Bank maintained its key interest rate at 7.5%, a move widely expected by analysts.

But the Bank also hinted at future monetary tightening, adding language to its policy statement that it "holds open the prospect" of a rate rise at its future meetings, with the earliest scheduled for July 21.

"Current price growth rates, including the stable indicators of inflation, continue to increase. Inflation expectations of households and business' price expectations remain high," the Bank's statement read, noting economic activity was rising faster than it had forecasted in April due to a rebound in domestic demand.

"The overall balance of inflation risks has tilted even more to the upside," it added.

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The bank's updated forecast put inflation in 2023 at 4.5-6.5%, while it expects inflation to settle at the target rate of 4% sometime next year — a projection unchanged from its last meeting.

Despite the generally more hawkish tone at Friday's meeting, Central Bank Governor Elvira Nabiullina sought to reassure markets of the economy's ability to adapt to the deluge of Western sanctions unleashed against Russia since the invasion of Ukraine.

"Taking into account the gradual replacement of external demand with domestic demand, the economy will fully return to pre-crisis levels next year," she said.

"The option of raising rates was most likely on the table today, but doing so would have defied market expectations ... [which] the Central Bank tries to avoid in order to conduct more transparent monetary policy," analysts at Raiffeisen Bank Russia wrote.

Ahead of the Central Bank's last monetary meeting in February, Bloomberg <u>reported</u> that the Kremlin was pressuring the Bank to be "more upbeat" about the Russian economy.

Last year, the Central Bank hiked the key rate to an unprecedented 20% in a bid to tame economic chaos prompted by the invasion of Ukraine and ensuing Western sanctions.

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