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Russia Raises Interest Rates to 15% on Inflation Fears

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Central Bank of Russia. **Artem Geodakyan / TASS**

Russia's Central Bank raised interest rates from 13% to 15% on Friday as it warned of higher-than-expected inflation across the economy.

"Current inflationary pressures have significantly increased to a level above the Bank of Russia's expectations," the Central Bank said in a statement.

The bank said domestic demand was increasingly outpacing the provision of goods and services, while the pace of lending growth was "invariably high."

"Persistently elevated inflation expectations and their further increase pose a significant risk," the Central Bank said.

Higher interest rates are designed to cool economic activity by increasing the costs of borrowing and encouraging saving.

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The Bank forecast inflation at a range of 7%-7.5% in 2023, up by a percentage point from its previous forecast.

The Bank expects its monetary policy to drive down consumer prices to 4%-4.5% in 2024, then "stay close" to its target of 4% from then on.

Friday's move is the Bank's fourth consecutive rate hike. Since July, the Central Bank has raised key rates by a total of 750 basis points.

Economists generally agree that Russia's economy is overheating, partly as a result of a rapid increase in government spending to fund its invasion of Ukraine.

The economy has been heavily militarized since February 2022, with investment and workers redirected to boost the production of tanks, missiles, guns and ammo.

Some independent analysts play down the impact of the Central Bank's rate hikes because of Russia's war spending.

Hinting at the war in Ukraine, the Bank said in its statement: "The updated medium-term parameters of fiscal policy assume a slower than expected decline in fiscal stimulus in the years ahead."

The Central Bank said it would continue monitoring inflation dynamics together with "domestic and external conditions" in its further rate decisions.

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