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Russia's Central Bank Leaves Rates Unchanged Despite High Inflation

By AFP

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Yuri Kochetkov / EPA / TASS

Russia's Central Bank held interest rates unchanged on Friday, despite inflation running well ahead of its target and repeated warnings that a surge in military spending is overheating the economy.

The bank kept its key rate at 16% but signaled it could hike borrowing costs in the future if the pace of price rises does not slow down. Inflation is currently running at 8.2% year-on-year, more than double the Russian Central Bank's 4% target.

"Returning inflation to the target will require a significantly longer period of maintaining tight monetary conditions in the economy," the regulator said in a statement released Friday. It added that it "holds open the prospect of increasing the key rate" at a future meeting.

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Central Bank Governor Elvira Nabiullina said earlier this week that she remains committed to bringing inflation down to the 4% target. But the regulator removed a 2024 inflation forecast from its statement on Friday and said inflation would hit its desired level by only next year.

Russia's economy has grown strongly after recovering from the initial shock of Western sanctions and the immediate fallout of launching its full-scale invasion of Ukraine in February 2022.

Spending on the war has managed to bolster the economy, but with the side effect of creating vast labor shortages, as hundreds of thousands of men have been mobilized to fight in the conflict and fill the ranks of Russia's booming arms industry.

"Labour shortages come as the key constraint on the expansion of output of goods and services. Labor market tightness continues to grow," Russia's Central Bank said Friday.

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