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No Signs of Inflation Slowdown Yet, Russian Central Bank Says

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Russian Central Bank Governor Elvira Nabiullina. **Arthur Novosiltsev / Moskva News Agency**

The Russian Central Bank's decision to raise interest rates to their highest level in two decades has so far failed to slow rising inflation, the regulator acknowledged in a bulletin published Wednesday.

The Central Bank raised its key rate to a record-high 21% in October 2024 as inflation, sanctions pressure and record defense spending for the war in Ukraine put the economy at risk of overheating.

"There are still no signs of a transition to a sustainable slowdown in price growth," the Bank wrote in its report, titled "What the Trends Are Saying: Macroeconomics and Markets."

Inflation in Russia surged to 9.5% in December, with year-over-year product price growth exceeding 11% — the highest level in nine years.

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Annual inflation reached 14.2% in December — more than double that of the same month of 2023 — while annual food inflation climbed to 22.9%, nearly three times the level recorded in December 2023, the Bank's report said.

January brought little relief, with prices rising by 1.14% in the first three weeks of the year and pushing annual inflation into the double digits (10.14%, according to calculations by Interfax) for the first time in two years.

The Central Bank cited Western sanctions, a disappointing harvest and the ruble's decline in value as key drivers of inflation.

Consumer demand remains strong, fueled by government spending on military contractors and the defense industry, the Bank said. It noted that demand continues to outpace the economy's ability to supply goods and services.

The Russian economy's production capacity and labor resources are "exhausted," the Central Bank said, adding that "continued rapid growth is impossible" under these conditions.

At the same time, Russia's GDP grew by approximately 4% last year, according to the Bank's estimates, while unemployment remains at historic lows and wages continue to rise steadily.

Under these circumstances, the Central Bank warned that it would need to maintain tight monetary policy "for a long time."

At its December meeting, the Central Bank unexpectedly held its key interest rate steady at 21% after Governor Elvira Nabiullina was reportedly pressured by Russia's elites to not raise rates further.

The Central Bank will hold its next rate meeting on Feb. 14.

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