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Russia's Central Bank Holds Key Rate at 21%, Says Inflation Pressures 'Remain High'

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Russia's Central Bank in Moscow. **Artyom Geodakyan / TASS**

Russia's Central Bank left its key interest rate unchanged on Friday, a sign of a more cautious approach as it seeks to gauge where inflation is headed.

It was the second time in a row that policymakers maintained the key rate after raising it to the current all-time high of 21% in October.

"Current inflationary pressures remain high," the Central Bank said Friday, warning that medium-term inflation risks are "still tilted to the upside."

Crucially, the bank raised its 2025 inflation forecast to between 7% and 8%, a significant increase from an earlier estimate of between 4.5% to 5%. It now expects inflation to return to its 4% target in 2026.

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Russia has faced volatile prices since it sent troops into Ukraine in February 2022, triggering a barrage of Western sanctions and strict countermeasures in a bid to stabilize the economy. So, too, has defense spending soared as Moscow ramps up arms production for the war in Ukraine.

Annual inflation stood at 10% as of Feb. 10 after a slight decrease between December and January, Russia's Central Bank noted on Friday. It said the "speed and sustainability" of inflation's decline will determine future rate decisions.

"The baseline scenario assumes that returning inflation to the target will require a longer period of tight monetary conditions than previously forecast in October," the regulator added.

Unlike with December's rate meeting, when markets had expected a further increase of between 1% and 2%, this time, analysts said they were unsurprised by the bank's decision to maintain course.

"It might signal a greater willingness to tolerate inflation above the 4% target this year," T-Investments Chief Economist Sofia Donets said. "Strangely enough, this could actually be interpreted as a softer stance than expected."

However, Donets noted that further rate hikes might still be on the table. "The Central Bank doesn't want markets to get too comfortable and start lowering long-term rates," she said.

The Moscow Exchange index was up 0.86% following Friday's key rate decision. The ruble was trading at 91 against the dollar.

Russia's Central Bank will hold its next rate meeting on March 21.

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