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Russian Central Bank Holds Key Rate Despite Fears of Economic Slowdown

By AFP

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

Russia's Central Bank held its key interest rate at 21% on Friday, maintaining borrowing costs at a historic high despite mounting concerns from businesses and banks that the economy is slowing.

Inflation has surged across the Russian economy in recent months, fueled by soaring government spending on the war in Ukraine and acute labor shortages.

The high lending rates have put increasing pressure on businesses, with top corporate leaders urging the central bank to ease monetary policy.

In a statement announcing Friday's key rate decision, the Central Bank acknowledged that lending activity remains "subdued," but noted that annual inflation, which is currently above 10%, still remains too high to justify a rate cut.

While the central bank targets inflation at 4%, it does not expect to reach that level until 2026, with average inflation projected to remain around 7–8% in 2025.

“The Bank of Russia will maintain monetary conditions as tight as necessary to return inflation to the target in 2026,” the bank said.

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During a video call with Central Bank Governor Elvira Nabiullina and senior officials on Thursday, President Vladimir Putin admitted inflation was elevated and that economic growth in 2025 would be “slightly lower,” describing the trajectory as a “soft landing” the country is “striving for.”

Economists have warned for months of an economic slowdown, citing falling oil prices, sluggish industrial output and the drag of high interest rates.

In a March research note, Raiffeisenbank Russia said confidence in the manufacturing sector had “significantly decreased” in recent months, while oil production had also declined.

Russia’s economy posted strong growth in 2024, driven largely by soaring defense spending, which is set to rise by nearly 30% again next year.

But analysts caution that war-driven growth is unsustainable and does little to boost real productivity. Some also question the effectiveness of rate hikes in curbing inflation, given that much of the current spending is state-driven and less sensitive to interest rates.

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