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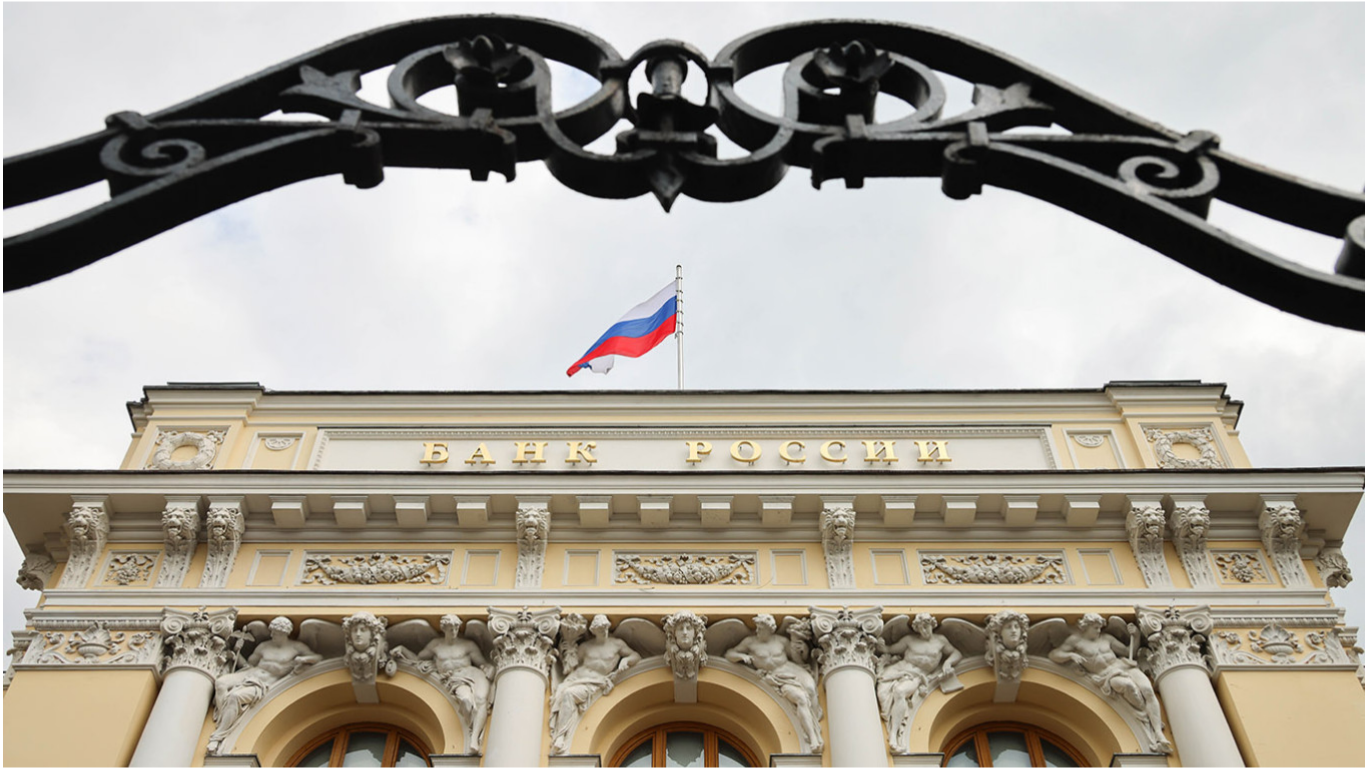
Russian Central Bank Signals Shift From Inflation Fight With Sizeable 2% Rate Cut

July 25, 2025



Yevgeny Messman / TASS

Russia's Central Bank slashed its key interest rate by 2 percentage points on Friday, a notable shift after months of high rates that helped tame inflation but also made borrowing painfully expensive for businesses and consumers alike.

The regulator's action lowered its key rate to 18%, down from 20% in June. The rate had previously been held at 21%, a two-decade high introduced in October 2024 to curb soaring prices driven by wartime spending and a weakening ruble.

In a statement on Friday, the Central Bank said inflationary pressures had eased notably in recent months. Seasonally adjusted annualized inflation fell to 4.8% in the second quarter, compared to 8.2% in the first. Core inflation dropped to 4.5%, down from 8.8% in the previous quarter, it added.

"The impact of tight monetary conditions on demand is becoming increasingly evident in decreasing inflationary pressures," policymakers said. "The effects of tight monetary policy, including through ruble appreciation, are more prominently seen in the low growth in prices for non-food products."

However, the Central Bank said inflation expectations remain elevated, signaling that further easing would be cautious and gradual. It forecast inflation would fall to 6-7% by the end of 2025 and return to its 4% target in 2026.

Policymakers project the key rate averaging between 18.8 and 19.6% this year, before declining to 12-13% in 2026. That estimate is still high, but a notable revision from previous forecasts.

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Russia's economy grew just 1.4% year-on-year in the first quarter of 2025, its slowest pace in two years. The World Bank previously said it expects growth to remain sluggish at 1.4% for the full year, following two years of state-driven expansion fueled by wartime spending, growth economists warn is unsustainable and masks deeper productivity issues.

Friday's decision was widely anticipated, as a growing chorus of voices in Russia's business community has warned that a combination of high interest rates and an overvalued ruble was creating a "perfect storm" that could stunt investment and weigh down on economic growth in the years ahead.

T-Bank chief economist Sofia Donets called the Central Bank's language on Friday "hawkish" despite the 2% rate cut.

"The Central Bank has taken a similarly cautious tone at its last four meetings, which didn't stop it from beginning — and now continuing — its easing cycle," Donets said, adding that policymakers appear focused on gradually lowering long-term rates.

Donets forecasts that the regulator will lower the key rate to 15% by the end of the year, slightly more optimistic than other analysts who expect a cut to 16–17%.

The Moscow Exchange index dipped 0.22% following the rate cut announcement on Friday, while the ruble was trading at 79.35 against the U.S. dollar.

The Central Bank's next policy meeting is scheduled for Sept. 12.

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