

Russian Central Bank Slashes Key Rate to 16%

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Russian Central Bank Governor Elvira Nabiullina. **Alexander Avilov / Moskva News Agency**

Russia's Central Bank cut its key interest rate by a modest half percentage point on Friday, bringing it down to 16% in what marks the fifth consecutive reduction this year.

Policymakers have been cautious in easing the key rate after hiking it to a two-decade high of 21% in September 2024 to curb surging inflation, largely driven by huge military spending.

In its [statement](#) on Friday, the Central Bank, repeating its past position, said it would maintain a tight monetary policy for a “prolonged period” as it tries to bring down inflation even as the economy slows amid high borrowing costs.

Annual inflation stood at 5.8% as of mid-December and is expected to remain below 6% at least until the end of the year, which is two percentage points above the Central Bank's target. Policymakers said they expect inflation to return to the target in the second half of 2026.

The rate cut, like those before it, 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 is creating a "perfect storm" that could stunt investment and weigh down on growth in the years ahead.

Russian gross domestic product is expected to grow by just 0.5-1% this year, according to earlier estimates from the Central Bank, down from the 4.3% GDP growth the state statistics agency Rosstat reported for 2024.

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On Friday, the Central Bank said inflation expectations have risen slightly, which "could hinder a sustained slowdown" in consumer prices. It also singled out credit activity, which has been strong in recent months.

"The Russian economy's upward deviation from its balanced growth path is narrowing. Overall economic activity continues to grow at a moderate pace, though dynamics vary across sectors," policymakers said in their statement, indicating that they remain focused on reducing inflation above all.

At the same time, the Central Bank said the 2% increase to Russia's value-added tax (VAT), which takes effect starting next year, would generate a short-lived uptick in inflation, after which it expects prices to resume falling.

T-Investments chief economist Sofia Donets, describing the Central Bank's press release on Friday as "fairly hawkish," [said](#) market participants, who have been hoping for bolder moves from the regulator, were likely to view the modest half-percent rate cut as a letdown.

"Over the past couple of days, amid very weak inflation data, the market had begun to price in more positive news. As a result, we're now seeing some cooling," Donets said.

"It's not enough for inflation simply to decline — the [Central Bank] wants to see that the process is sustainable. It may be trying to anchor expectations around the idea that a 50-basis-point cut is the new norm, and that, as the saying goes, much more work is needed to achieve a larger reduction," she added.

Russian stocks were up slightly as the Central Bank dialed down expectations for larger rate cuts in the coming months. The MOEX stock index was up around 0.21%. The ruble was trading at 80.44 to the U.S. dollar, up 0.81%.

The Central Bank's next key rate meeting is scheduled for Feb. 13.

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