The Moscow Times
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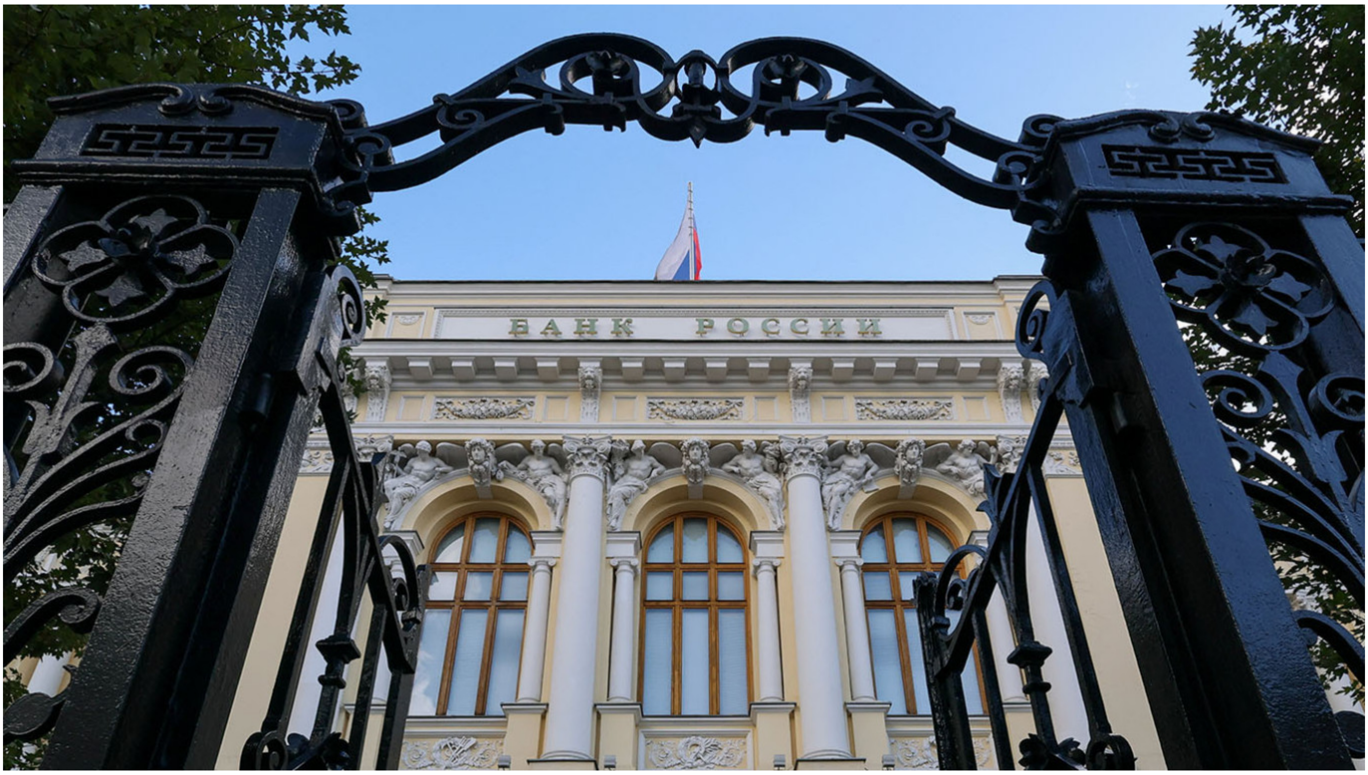
Russian Central Bank Holds Key Rate at 14%

September 11, 2026



The Russian Central Bank. **REUTERS / Shamil Zhumatov**

Russia's Central Bank kept its key interest rate at 14% on Friday, saying that rising fuel costs, driven by Ukrainian drone attacks on oil refineries, and a "temporary reduction in production capacities" are making it difficult to tame inflation.

The Central Bank reported that annual inflation hit 6.3% on Sept. 7. Policymakers maintained their full-year inflation forecast at 6% to 7%, and still expect price growth to fall toward the 4% target next year.

"In recent months, price dynamics have been considerably affected by volatile components, including motor fuel, fruit and vegetables," the regulator said in a press release. "The rise in motor fuel prices has also affected underlying inflation dynamics."

"Inflation expectations of households, businesses and financial market participants have changed diversely. Nevertheless, they remain elevated, which may impede a sustained slowdown in inflation," it added.

The bank last lowered the key rate at its July 24 meeting, bringing it from 14.25% to 14%.

Inflation is a growing concern across the globe as the war in Iran drives up the price of oil, which has again risen above $100 per barrel due to renewed threats in the Strait of Hormuz. Earlier this week, the European Central Bank raised its benchmark rate by a quarter percentage point to 2.5%.

For Russia, sustained Ukrainian attacks against oil refineries and energy infrastructure are compounding the problem. Since the spring, drone strikes have halted or scaled back production at facilities that account for large shares of Russia's gasoline output, leading to major fuel shortages across the country.

Yet at the same time, a long period of high borrowing costs has weighed down economic growth, leaving business leaders pressing for a lower key interest rate to stimulate investment.

GDP growth in Russia is projected at near-stagnant levels of 0% to 1% for this year.

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