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Russian Central Bank Holds Key Interest Rate Steady

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Russian Central Bank Governor Elvira Nabiullina. **Arthur Novosiltsev / Moskva News Agency**

Russia's Central Bank decided to hold its key interest rate at 14% during its latest meeting on Friday, weighing inflation risks against the need to lower currently high borrowing costs for businesses and consumers as the Kremlin prioritizes spending on the war against Ukraine.

The Central Bank reported that annual inflation hit 6.8% earlier in the week. Policymakers slightly increased their full-year inflation forecast, now at 7.1% to 7.6%, but they still expect price growth to fall toward the 4% target next year.

Inflation expectations remain high, the Central Bank said, though officials have argued that some of the more recent price increases are rooted in one-time factors, like Ukraine's strikes on Russian oil refineries raising the cost of gasoline and diesel.

"Underlying price growth has not yet decreased... primarily due to the impact of a temporary reduction in production capacities in certain sectors," it said in a press release, while also alluding to inflation risks associated with the war in Iran and its impacts on global energy

markets.

Policymakers also hiked the projected key rate range for next year by two percentage points, now at 12.5 to 13.5%.

The rate hold, which analysts widely expected, comes as spending on the war in Ukraine continues to strain the Russian government's finances, while Ukrainian drone and missile attacks on energy infrastructure and commercial sites in recent months have raised the cost of some goods and services.

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Despite its more bearish outlook on inflation, the Central Bank raised its forecast for economic growth this year, with GDP now expected to come in at 0.5% to 1% by the end of 2026, according to Friday's press release.

Sofia Donets, chief economist at T-Investments, said policymakers appeared to leave room for another rate cut this year, "especially since the signal in the press release remained neutral with no explicit guidance on the future direction."

Inflation is a growing concern across the globe as the war in Iran drives up the price of oil, which rose above $116 per barrel for the first time since May on Friday. For Russia, Ukrainian attacks against oil refineries have compounded the problem since it can sometimes take up to several months to repair the complex facilities.

"The speed at which [production] capacity is restored is itself an element of uncertainty," Central Bank Governor Elvira Nabiullina said at a press conference later on Friday.

"Another factor of uncertainty is the full range of secondary effects — namely, how this will feed into prices across a broad spectrum of goods and impact inflation expectations," she said.

A long period of high borrowing costs has weighed down economic growth in Russia, leaving business leaders pressing for a lower key interest rate to stimulate investment. But the Central Bank has so far prioritized keeping price growth subdued.

"There were individual opinions in favor of raising the rate, but only one option was discussed in detail: keeping the rate unchanged," Nabiullina said of the key rate decision on Friday.

The Central Bank's next rate meeting takes place on Dec. 18.

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