

Russia's Central Bank Raises Rates to 19% as Inflation Ticks Up

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Russian Central Bank Governor Elvira Nabiullina. **Mikhail Kireev / Roskogress Photobank**

Russia's Central Bank on Friday [raised](#) its key interest rate from 18% to 19%, a widely anticipated move as the country struggles to cool down inflation amid soaring military spending for the war in Ukraine.

"Current inflationary pressures remain high. By the end of 2024, annual inflation is likely to exceed the July forecast range of 6.5–7.0%," the bank said in a statement. "Growth in domestic demand is still significantly outstripping the capabilities to expand the supply of goods and services."

For that reason, the bank explained, "further tightening of monetary policy is required" so that the government can reach its inflation target of 4%. While stating that inflation was likely to exceed its previous forecast for 2024, it said it still expects inflation to drop to 4–4.5% in 2025 before nearing the target rate.

Friday's rate rise marks the seventh in over a year. Russia's Central Bank last [increased](#)

interest rates in July when it hiked the key rate from 16% to 18%.

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Russia has faced volatile prices since it sent troops into Ukraine in February 2022, triggering a barrage of Western sanctions and strict countermeasures in a bid to stabilize the economy. So, too, has defense spending soared as Moscow ramps up arms production for the war in Ukraine.

According to President Vladimir Putin, Russia is set to spend almost 9% of its GDP on defense and security this year, a figure unprecedented since the days of the Soviet Union.

That surge in state spending, combined with record labor shortages across a number of sectors, has created an inflationary spiral that Russia has been unable to shake off despite a gradual increase in interest rates.

Russia's federal budget has jumped almost 50% over the last three years — from 24.8 trillion rubles (\$289 billion) in 2021 to a planned 36.6 trillion rubles (\$427 billion) this year.

Given that so much of the spending is being directed by the state, which is less responsive to higher borrowing costs, analysts fear interest rate rises may not be an effective tool against inflation.

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Russia's Central Bank has aggressively raised interest rates over the past year, taking them back near the emergency 20% rate introduced shortly after the invasion of Ukraine. It says such hikes are needed to stop the economy from overheating and stave off the risk of stagflation — when growth slows but inflation remains high.

But steep borrowing costs have hit some consumers and businesses, many of whom rely on short-term debt.

“The Bank of Russia's hike to 19% will help speed up bringing inflation down to 4%, even at the cost of a higher risk of recession,” [said](#) Bloomberg economist Alex Isakov.

“The central bank needs to rebuild credibility after a streak of misses on the inflation target stretching back to 2020,” he added. But that will be a gradual, prolonged process, not something achievable by a single hike.”

T-Investment's chief economist Sofia Donets [said](#) that demand is normalizing, and inflation slowing down, but not fast enough to convince the Central Bank to stop raising rates.

“We expect that the arguments for gradually moving toward a reversal in the monetary policy cycle will continue to build,” she said. “But for now, the Bank of Russia is sending a strong

signal. It isn't ruling out a further rate hike at the October meeting.”

Russia's Central Bank will hold its next key rate meeting on Oct. 25.

AFP contributed reporting.

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