

# Bank of Russia increases the key rate by 200 bp to 18.00% p.a.

26 July 2024

Press release

On 26 July 2024, the Bank of Russia's Board of Directors decided to increase [the key rate](#) by 200 basis points to 18.00% per annum. Inflation has accelerated and is developing significantly above the Bank of Russia's April forecast. Growth in domestic demand is still outstripping the capabilities to expand the supply of goods and services. For inflation to begin decreasing again, monetary policy needs to be tightened further. Returning inflation to the target requires considerably tighter monetary conditions than presumed earlier. The Bank of Russia will consider the necessity of further key rate increase at its upcoming meetings. The Bank of Russia's forecast has been substantially revised, including the inflation forecast for 2024, which has been raised to 6.5–7.0%. Given the monetary policy stance, annual inflation will decline to 4.0–4.5% in 2025 and stay close to 4% further on.

In 2024 Q2, the current seasonally adjusted **price growth** averaged 8.6% in annualised terms after 5.8% in the previous quarter. In recent months, the acceleration of inflation was partially driven by one-off factors. Concurrently, underlying inflationary pressures also rose. In 2024 Q2, the average seasonally adjusted core inflation went up to 9.2% in annualised terms from 6.8% in the previous quarter. Annual inflation grew from 8.6% in June to 9.0% as of 22 July. This growth reflects, among other things, the indexation of utility rates from 1 July.

Inflation expectations of households and financial market participants continued to grow. Businesses' price expectations generally remained unchanged but were still high. Elevated inflation expectations increase the inertia of underlying inflation.

High-frequency indicators for 2024 Q2 show that the **Russian economy** continues to grow rapidly. Consumer activity remains high amid a significant increase in households' incomes and positive consumer sentiment. Substantial investment demand is supported by both fiscal incentives and high profits of businesses. The significant upward deviation of the Russian economy from a balanced growth path is not decreasing.

Labour shortages continue to grow. In these conditions, the growth in domestic demand does not result in a proportional expansion of the supply of goods and services but rather increases the costs of businesses and, consequently, intensifies inflationary pressures.

**Monetary conditions** continued to tighten. Money market rates and OFZ yields have risen significantly, reflecting, among other things, market participants' expectations for the July decision on the key rate and its further path. Both credit and deposit rates have increased. High market interest rates support the propensity to save but do not sufficiently constrain lending. In 2024 Q2, lending activity remained high in both retail and corporate segments.

Credit and deposit rates will continue to adjust to the growth in money market rates and OFZ yields already in place. Monetary policy will help to additionally increase the savings rate, including by returning lending to more balanced growth rates. In the retail segment, bank lending conditions will also tighten as a result of the cancellation of the non-targeted subsidised mortgage programme from 1 July and the entry into force of previously adopted macroprudential measures.

Over the medium-term horizon, the **balance of inflation risks** is still tilted to the upside. The key proinflationary risks are associated with changes in terms of trade (including as a result of geopolitical tensions), persistently high inflation expectations and an upward deviation of the Russian economy from the balanced growth path. Disinflationary risks are primarily related to a faster slowdown in domestic demand growth than expected in the baseline scenario.

The Bank of Russia assumes that the announced fiscal policy normalisation path in 2024 and further on will remain unchanged. Changes in this path may require a revision of the monetary policy parameters.

Following the Board of Directors' key rate meeting on 26 July 2024, the Bank of Russia releases its [medium-term forecast](#). The Bank of Russia will publish the Summary of the Key Rate Discussion and the Commentary on the Medium-term Forecast [on 7 August 2024](#).

The Bank of Russia Board of Directors will hold its next key rate meeting on [13 September 2024](#). The press release on the Bank of Russia's Board decision is to be published at 13.30 Moscow time.

[Statement by Bank of Russia Governor Elvira Nabiullina in follow-up to Board of Directors meeting on 26 July 2024](#)

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