

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

## trends and challenges of socio-economic development

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### INFLATION IS SLOWING DOWN, BUT PRO-INFLATIONARY RISKS REMAIN HIGH

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*At its meeting on April 25, 2025, the Bank of Russia kept the key rate at 21% per annum. In April, inflation slowed to 10.2% from a two-year high of 10.3% recorded in March. However, inflationary pressures remain high. Slower global economic growth and lower oil prices in case of escalation of tensions in global trade can increase pro-inflationary risks in the Russian economy as a result of ruble depreciation.*

On April 25, 2025, the Bank of Russia decided to keep the key rate at 21.0% per annum,<sup>1</sup> which coincided with the expectations of most experts.<sup>2</sup> Thus, the rate remains unchanged since October 2024, at the maximum level for the entire period of its existence since 2013. In Q1 2025, the slowdown in credit growth continued (the volume of consumer loans decreased by 0.9% mom in February and 0.3% mom in March, while the portfolio growth over the previous 12 months decreased from 7.9% to 5.6%) and the growth of the population's propensity to save (in March, the population's funds on deposits increased by 0.8%, or Rb0.5 trillion).<sup>3</sup>

Continued tight monetary policy and strengthening of the ruble in February-March led to a decline in inflation expectations for the first time since September 2024 (in March, the median estimate of inflation expectations of the population on an annual horizon decreased to 12.9%, on a 5-year horizon – to 12.1%). As cost growth slowed down, the price expectations of businesses also declined. Seasonally adjusted annual total inflation slowed from 12.9% in Q4 2024 to 8.3% in Q1 2025, core inflation – from 13.4% to 8.9%.

The Bank of Russia softened the signal on the direction of monetary policy from moderately tight to neutral, emphasizing that the preservation of tight monetary policy is possible even if the key rate is lowered in case inflation expectations decline.<sup>4</sup> However, inflationary pressure remains elevated. An important factor

1 Bank of Russia decided to keep the key rate at 21.00% per annum // Bank of Russia. 2025. URL: [https://www.cbr.ru/press/pr/?file=25042025\\_133000key.htm](https://www.cbr.ru/press/pr/?file=25042025_133000key.htm)

2 The Central Bank of Russia has again kept the key rate at 21% // Interfax. 2025. URL: <https://www.interfax.ru/business/1022752>

3 On the development of the banking sector of the Russian Federation in March 2025 // Bank of Russia. 2025. URL: [https://www.cbr.ru/Collection/Collection/File/55576/razv\\_bs\\_25\\_03.pdf](https://www.cbr.ru/Collection/Collection/File/55576/razv_bs_25_03.pdf)

4 Monetary conditions and transmission mechanism of monetary policy // Bank of Russia. 2025. URL: [https://cbr.ru/collection/collection/file/55866/dku\\_2504-34.pdf](https://cbr.ru/collection/collection/file/55866/dku_2504-34.pdf)

## Monitoring of Russia's economic outlook

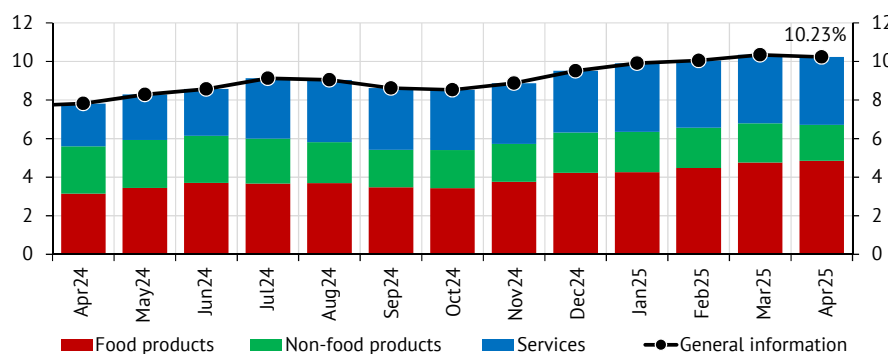


Fig. 1. Component contribution to consumer inflation over the last 12 months, p.p.

Source: Rosstat.

in maintaining high inflation is the fiscal policy supporting the expansion of domestic demand and money supply (in March, the contribution of budgetary operations to the formation of money supply remained at the level of January-February).<sup>1</sup>

In the updated forecast of the Russian Central Bank within the framework of the base scenario, the range of the average annual key rate for 2025 has been narrowed to 19.5–21.5%, with the center of the range remaining at the level of the February forecast.<sup>2</sup> The forecast for average annual inflation for 2025 is lowered to 9.0–9.6% from 9.1–9.8%. The average real interest rate is still projected to be above 10%. The baseline scenario assumes a reduction in the average annual key rate to 13–14% in 2026, which would ensure that average annual inflation returns to 4.9–5.4% in 2026.

In April, annual inflation for the last 12 months amounted to 10.23%<sup>3</sup> (Fig. 1), having decreased by 0.11 p.p. from the two-year high of 10.34% observed in March. The main contribution to inflation is still made by the growth of prices for food products – 4.85 p.p. (which is consistent with their largest weight in the consumer basket – 38.8%). The contribution of services to annual inflation decreased by 0.03 p.p. to 3.52 p.p., and the contribution of non-food products – by 0.17 p.p. to 1.87 p.p.

In April, the level of consumer prices increased by 0.4% against March. The growth of prices for food products mainly contributed to the monthly inflation (0.28 p.p.). The rise in the price of fruit and vegetables accelerated noticeably – up to 1.48% after the growth by 0.25% in March, which added 0.08 p.p. to the overall inflation. Rising prices for fish and seafood, as well as for bread and bakery products steadily contributed to inflation (0.02 p.p. in April) over the past few months. In addition, due to the increase in excise duties on alcohol from January 1, 2025, alcoholic beverages continue to rise in price – the increase in prices by 1.28% in April added 0.05 p.p. to the monthly inflation. In annual terms, the contribution of alcohol to inflation reached 0.5 p.p. with the total annual growth of prices for alcoholic beverages by 12.97%.

Simultaneously in April, the decrease in prices for chicken eggs accelerated from 3.98% in March to 6.91%. Despite their small weight in the consumer basket

1 Summary of the key rate discussion // Bank of Russia. 2025. URL: [https://cbr.ru/dkp/mp\\_dec/decision\\_key\\_rate/summary\\_key\\_rate\\_12052025/](https://cbr.ru/dkp/mp_dec/decision_key_rate/summary_key_rate_12052025/)

2 Medium-term forecast of the Bank of Russia // Bank of Russia. 2025. URL: [https://www.cbr.ru/Content/Document/File/175397/forecast\\_250425.pdf](https://www.cbr.ru/Content/Document/File/175397/forecast_250425.pdf)

3 On estimation of the consumer price index in April 2025 // Rosstat. 2025. URL: [https://rosstat.gov.ru/storage/mediabank/70\\_16-05-2025.html](https://rosstat.gov.ru/storage/mediabank/70_16-05-2025.html)

## Inflation is slowing down, but pro-inflationary risks remain high

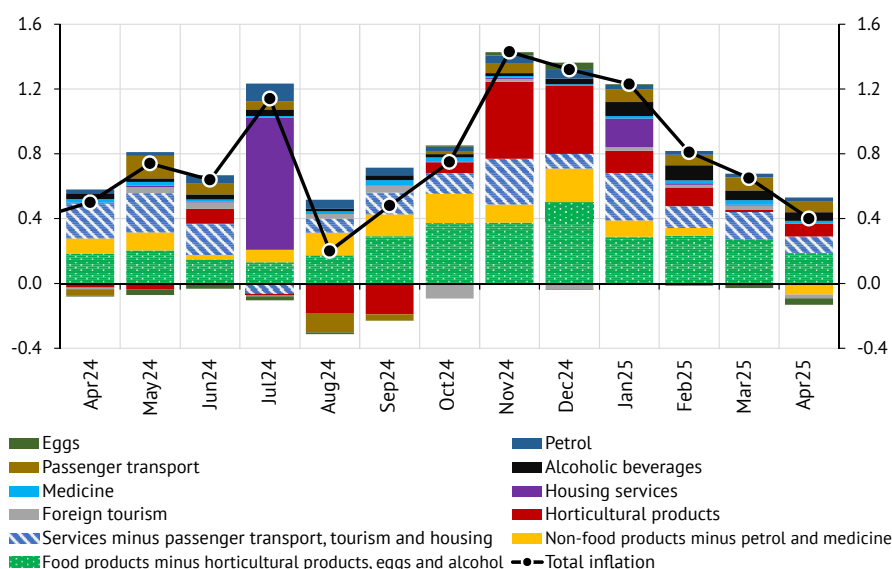


Fig. 2. Contribution of individual components to inflation vs. the previous month, p.p.

Sources: Rosstat, own calculations.

(0.59%), it led to a decrease in inflation by 0.04 pp. The decline in egg prices in Russia was due to the abolition of import duties in 2024, which increased the market supply.<sup>1</sup> Since the beginning of the year, eggs have become 12% cheaper, and since April 2024 – 17.18%, which contributed to a decrease in annual inflation by 0.1 p.p. (Fig. 2).

Decrease in prices for non-food products in April by 0.07% led to a slowdown in monthly inflation by 0.02 pp. In particular, due to the strengthening of the ruble exchange rate, electrical goods became cheaper by 2.6% and made a negative contribution to inflation in the amount of 0.02 pp. At the same time, gasoline prices rose by 0.6% in April, while the price of medicines went up by 0.9%, which added 0.03 p.p. and 0.02 p.p. to monthly inflation, respectively.

The contribution of services to the growth of the price level in April decreased from 0.28 p.p. to 0.15 p.p. due to a decrease in the cost of foreign tourism services by 2.32%. However, in April the price of passenger transportation services rose (2.98%), which led to an increase in monthly inflation by 0.07 p.p. In addition, the prices for hotel services (3.18%) and sanatorium and health services (4.45%) rose seasonally, but due to their small share in the consumer basket (0.4%), their cumulative contribution was limited to 0.03 pp.

According to our estimates, seasonally adjusted annual inflation (SAAR) in April decreased to 5.26% (Fig. 3), which is significantly lower than the levels observed in March (8.13%) and February (8.38%). Thus, since November 2024, the indicator has demonstrated a steady tendency to slow down.

The excess of aggregate demand over aggregate supply is the main reason for increased inflation in recent years. At the same time, at the end of 2024, the deviation of the Russian economy upward from the trajectory of balanced growth was more significant than previously estimated – Rosstat raised its estimate of the GDP growth rate in Q4 2024 to 4.5%, and to 4.3% for 2024 as a whole. According to the CBR estimates, the peak overheating of the economy

1 Rosptitsesoyuz complained about the reduction of purchase prices for eggs // RBC. 2025. URL: <https://www.rbc.ru/business/14/03/2025/67d31a339a794785d9e30b59b>

## Monitoring of Russia's economic outlook

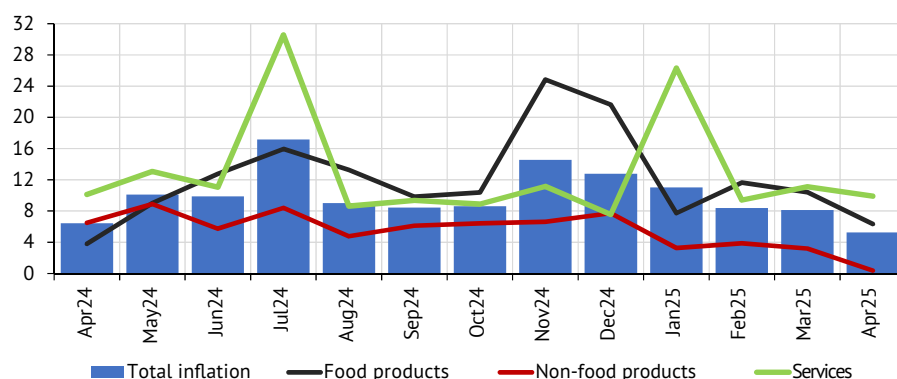


Fig. 3. Dynamics of general inflation and its main components, % SAAR

Sources: Rosstat, own calculations.

in Q4 2024 passed, as the positive output gap started to decline in Q1 2025. Real GDP growth in 1Q 2025 by 1.4% YoY,<sup>1</sup> according to our estimates, led to a reduction in the output gap by 1.6 p.p. to 0.1%, which was one of the reasons for the easing of inflationary pressure in early 2025.

According to operational data from the Russian Ministry of Economic Development, the overall price level rose by 0.08% in the first 12 days of May, indicating a reduction in price pressures (inflation in early May 2024 was 0.3%).<sup>2</sup> As the effects of tighter monetary conditions, slower wage growth and consumer credit accumulate, we forecast inflation to fall to 8.34% in Q3 and to 6.99% in Q4 2025. Some disinflationary pressure may also be exerted by improving economic conditions if geopolitical tensions subside.

At the same time, the growing budget deficit remains a pro-inflationary factor. In January-April 2025, the federal budget deficit amounted to Rb 3.2 trillion (1.5% of GDP), which is Rb 2.1 trillion more than in the same period of 2024. Meanwhile, the federal budget expenditures grew by 20.8% YoY to Rb 15.5 trillion, which is due to advance financing of expenditure items and reduction of oil and gas revenues (by 10.3% YoY) due to the decline in oil prices.<sup>3</sup> According to the amendments adopted in April, the budget deficit in 2025 was increased from Rb 1.2 trillion (0.5% of GDP) to Rb 3.8 trillion (1.7% of GDP).<sup>4</sup> Additional pro-inflationary risks remain tension in the labor market, where wage growth outpaces productivity growth, as well as potential weakening of the ruble in the context of falling oil prices in case of escalation of tensions in global trade or deterioration of the geopolitical situation.

Thus, despite the reduction of inflationary pressure in recent months, pro-inflationary risks remain high, and rapid easing of the MPC in 2025 may well not happen. ▲

1 On preliminary estimation of GDP dynamic in Q1 2025 // Rosstat. 2025. URL: [https://rosstat.gov.ru/storage/mediabank/vvp\\_16-05-2025.html](https://rosstat.gov.ru/storage/mediabank/vvp_16-05-2025.html)

2 Preliminary assessment of federal budget execution in January-April 2025 // Ministry of Finance of the Russian Federation. 2025. URL: [https://minfin.gov.ru/ru/press-center/?id\\_4=39699-predvaritelnaya\\_otsenka\\_ispolneniya\\_federalnogo\\_byudzheta\\_v\\_yanvare-aprele\\_2025\\_goda](https://minfin.gov.ru/ru/press-center/?id_4=39699-predvaritelnaya_otsenka_ispolneniya_federalnogo_byudzheta_v_yanvare-aprele_2025_goda)

3 On preliminary estimation of GDP dynamic in Q1 2025 // Rosstat. 2025. URL: [https://rosstat.gov.ru/storage/mediabank/vvp\\_16-05-2025.html](https://rosstat.gov.ru/storage/mediabank/vvp_16-05-2025.html)

4 The Russian Government approved amendments to the federal budget indicators for 2025 // Ministry of Finance of the Russian Federation at a meeting. 2025. URL: [https://minfin.gov.ru/press-center/?id\\_4=39696-na\\_zasedanii\\_pravitelstva\\_rossii\\_odobreny\\_izmeneniya\\_v\\_pokazately\\_federalnogo\\_byudzheta\\_na\\_2025\\_god](https://minfin.gov.ru/press-center/?id_4=39696-na_zasedanii_pravitelstva_rossii_odobreny_izmeneniya_v_pokazately_federalnogo_byudzheta_na_2025_god)