

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

trends and challenges  
of socio-economic development

Gaidar Institute



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

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*At its meeting on September 12, 2025, the Bank of Russia cut its key rate by 100 basis points to 17% per annum. In August, inflation slowed to 8.1%, the lowest level since April 2024. For the first time since August 2022, there was a 0.4% decline in the overall level of consumer prices relative to the previous month. However, significant inflationary risks remain, including a resumption of credit growth, inflationary expectations and budget deficits, tensions in the labor market, and a weakening of the ruble amid slowing global GDP growth and falling oil prices in the event of escalating tensions in global trade.*

On September 12, 2025, the Bank of Russia decided to cut its key rate by 100 basis points to 17% per annum,<sup>1</sup> maintaining a neutral signal and failing to meet the expectations of most analysts, who had predicted a 200 basis point cut.<sup>2</sup> Earlier, on June 6, the Bank of Russia decided to lower the key rate (by 100 basis points, from 21% per annum) for the first time since September 2022, and on July 25, it lowered the rate again by another 200 basis points, from 20% to 18% per annum. Thus, since the beginning of 2025, the Central Bank of Russia has lowered the rate three times in a row, and the total reduction in the key rate has reached 400 basis points, driven by a slowdown in inflation. However, the pace of reduction slowed in September due to persistently high inflation expectations and an increase in lending growth as a result of easing monetary conditions.

In July 2025, there was a revival in corporate lending (bank sector claims on companies grew by 1.1% m/m, accelerating after growing by 0.9% m/m in June, with a significant portion of the increase attributable to housing developers) and mortgage lending (household mortgage debt rose by 0.7% m/m, accelerating after growing by 0.6% m/m in June, with mortgage lending volume rising by

1 The Bank of Russia decided to cut the key rate by 100 basis points to 17% per annum // Bank of Russia. 2025. URL: [https://www.cbr.ru/presspr/?file=12092025\\_133000key.htm](https://www.cbr.ru/presspr/?file=12092025_133000key.htm)

2 The Central Bank of the Russian Federation cut the key rate by 100 basis points to 17% // Interfax. 2025. URL: <https://www.interfax.ru/business/1046927>

## Monitoring of Russia's economic outlook

15% m/m). Growth in household deposits slowed from 1.5% m/m in June to 1.3% m/m in July,<sup>1</sup> due to lower deposit yields.

In August, the median estimate of the households' inflation expectations over the one-year increased by 0.5 p.p. m/m to 13.5%, mainly due to the indexation of utility tariffs and rising gasoline prices. The median 5-year expectations rose by 1.3 p.p. m/m to 12.1%, while the annual inflation observed by the population rose by 1.1 p.p. m/m to 16.1%. The gap between the assessment of observed inflation and the annual CPI growth increased from 5.6 p.p. to 7.3 p.p. Price expectations of enterprises also increased, accompanied by an acceleration in cost growth and higher assessments of actual and future demand. The average rate of price growth expected by retail businesses over the next three months increased by 0.6 p.p. m/m to 7.0% y/y.<sup>2</sup>

Thus, inflation expectations among the households and price expectations among enterprises remain elevated compared with the period of low inflation in 2017–2019.<sup>3</sup> Consumer activity growth, supported by budget expenditures and rising household incomes amid continued tightness in the labor market, accelerated.<sup>4</sup> The contribution of budget operations to the growth of monetary aggregates continued to increase, reaching 4.1 p.p. in June (against 3.6 p.p. in May).<sup>5</sup> As a result, inflationary risks in the medium term prevail over disinflationary risks and are linked, among other things, to the deterioration of external trade conditions – the slowdown in global GDP growth and the decline in oil prices may complicate the sustained decline in inflation due to the weakening of the ruble.

The expansion of the budget deficit remains an obstacle to a sustained decline in inflation. Despite the federal budget surplus of Rb656 bn achieved in August 2025 thanks to one-off dividend income from state-owned banks, the federal budget deficit amounted to Rb 4.19 trillion for the first eight months of 2025 (1.9% of GDP against the revised June plan of Rb 3.79 trillion, or 1.7% of GDP), which is Rb4.16 trillion more than in the same period of 2024. The growth in the budget deficit is due to the advance financing of expenditures and a decrease in oil and gas revenues—federal budget expenditures grew by 21.1% y/y to Rb27.9 trillion, while oil and gas revenues decreased by 20.2% y/y.<sup>6</sup>

Despite the fact that, according to estimates by analysts surveyed by the Central Bank in September, annual inflation in December 2026–2027 will be 4.7% and 4.2%, respectively, and will only reach 4% by the end of 2028,<sup>7</sup> the Central Bank believes that tight monetary conditions continue to contribute to disinflation. The Russian economy's deviation from its balanced growth trajectory is decreasing—operational data and survey indicators point to

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1 On the development of the banking sector of the Russian Federation in July 2025 // Bank of Russia. 2025. URL: [https://cbr.ru/Collection/Collection/File/57184/razv\\_bs\\_25\\_07.pdf](https://cbr.ru/Collection/Collection/File/57184/razv_bs_25_07.pdf)

2 Inflation expectations and consumer sentiment // Bank of Russia. 2025. URL: [https://www.cbr.ru/Collection/Collection/File/57179/Infl\\_exp\\_25-08.pdf](https://www.cbr.ru/Collection/Collection/File/57179/Infl_exp_25-08.pdf)

3 Ibid.

4 Statement by Elvira Nabiullina, Chair of the Bank of Russia, following the meeting of the Bank of Russia Board of Directors on September 12, 2025 // Bank of Russia. 2025. URL: <https://www.cbr.ru/press/event/?id=26932>

5 Monetary conditions and the transmission mechanism of monetary policy // Bank of Russia. 2025. URL: [https://www.cbr.ru/Collection/Collection/File/57150/DKU\\_2507-37.pdf](https://www.cbr.ru/Collection/Collection/File/57150/DKU_2507-37.pdf)

6 Preliminary assessment of federal budget execution in January–August 2025 // Ministry of Finance of the Russian Federation. 2025. URL: [https://minfin.gov.ru/ru/press-center/?id\\_4=39890-predvaritelnaya\\_otpolneniya\\_federalnogo\\_byudzheta\\_za\\_yanvar-avgust\\_2025\\_goda](https://minfin.gov.ru/ru/press-center/?id_4=39890-predvaritelnaya_otpolneniya_federalnogo_byudzheta_za_yanvar-avgust_2025_goda)

7 Bank of Russia lowers key rate to 17% // Vedomosti. 2025. URL: <https://www.vedomosti.ru/finance/articles/2025/09/12/1138900-stavku-do-17>

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

a decline in external demand and a slowdown in overall economic activity in the third quarter of 2025. In its forecast updated on July 25, the Central Bank of Russia lowered its estimate of average annual inflation for 2025 from 9.0–9.6% to 8.6–9.2%. Under the baseline scenario, the range of the average annual key rate for 2025 has been narrowed from 19.5–21.5% to 18.8–19.6%, with the center of the range shifting from 20.5% to 19.2%.<sup>1</sup> In addition, the average annual key rate is expected to decline to 12–13% in 2026, which will ensure a return of average annual inflation to 4.6–5.1% in 2026. Taking into account the monetary policy being pursued, annual inflation will decline to 6.0–7.0% by December 2025 (compared to 7.0–8.0% in the April forecast) and return to 4.0% by December 2026.

In August, annual inflation over the past 12 months was 8.1%, the lowest since April 2024<sup>2</sup> (Fig. 1), down 0.7 p.p. from 8.8% in July. The main contributor to inflation continues to be the rise in food prices – 3.8 p.p., despite a 0.4 p.p. decrease compared to July (which is consistent with their largest weight in the consumer basket – 38.8%). The contribution of services to annual inflation decreased by 0.2 p.p. to 3.1 p.p. The smallest contribution to annual inflation in August was made by the increase in prices for non-food products – up to 1.3 p.p. (-0.1 p.p.).

In August, consumer prices fell by 0.4% (Fig. 2) against July – at the end of the month, Russia recorded deflation for the first time since August 2022. The main contributor to monthly deflation (0.51 p.p.) was a seasonal 10% month-on-month decline in prices for fruit and vegetables. Vegetables and fruits fell in price more than usual (in August 2024, the decline in prices for fruit and vegetable products amounted to 3.96% m/m) after a sharp rise in prices in the first half of the year. As a result, the decline in food prices led to a reduction in inflation by 0.35 p.p. The contribution of food products, excluding fruit and vegetables, to monthly price growth was 0.16 p.p.

The 0.42% increase in non-food prices in August led to a 0.14 p.p. increase in monthly inflation. In particular, despite the government's July 28 ban on gasoline

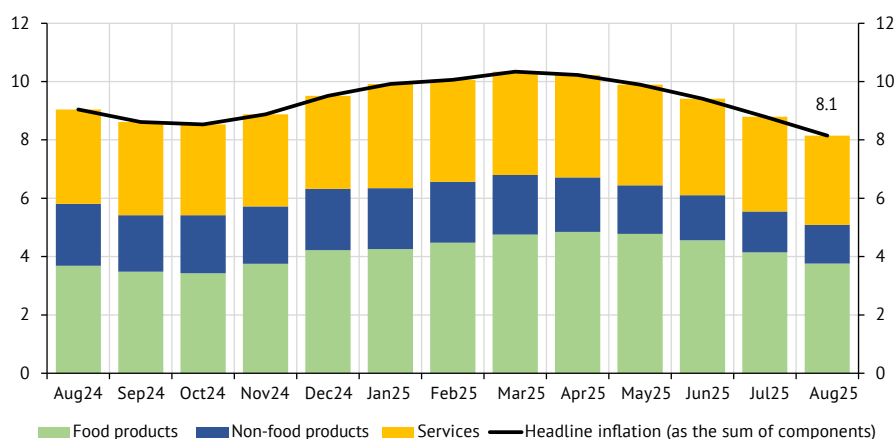


Fig. 1. Component contribution to consumer inflation over the last 12 months, p.p.

Source: Rosstat.

1 Medium-term forecast of the Bank of Russia // Bank of Russia. 2025. URL: [https://www.cbr.ru/content/document/file/179982/forecast\\_250725.pdf](https://www.cbr.ru/content/document/file/179982/forecast_250725.pdf)

2 On the assessment of the consumer price index in August 2025 // Rosstat. 2025. URL: [https://rosstat.gov.ru/storage/mediabank/137\\_10-09-2025.html](https://rosstat.gov.ru/storage/mediabank/137_10-09-2025.html)

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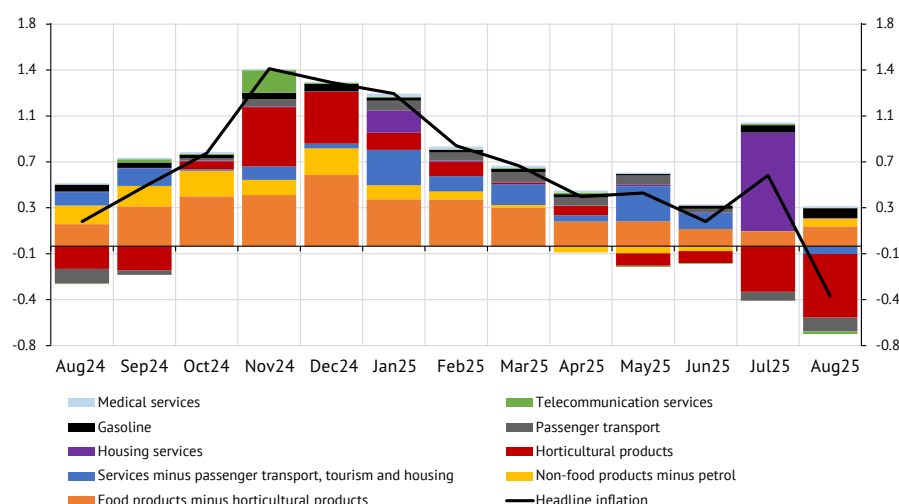


Fig. 2. Contribution of individual components to inflation vs. previous month, p.p.

Sources: Rosstat, own calculations.

exports (the embargo was extended to September in August), fuel prices rose by 1.8% in August after a 1.4% increase in July, adding 0.08 percentage points to monthly inflation. The rise in gasoline prices in Russia is due to a reduction in production and supply of fuel on the market due to disruptions in the operation of oil refineries, a lack of reserves, and a significant expansion of exports to Southeast Asian countries prior to the embargo. In addition, due to the tourist and harvesting season, there is increased domestic demand for gasoline during the summer months. The increase in the tax burden, including excise duties (by 16% since the beginning of the year), and the reduction in damper payments (by 40% in the first half of the year) due to the decline in world oil prices exerted additional upward pressure on retail gasoline prices.<sup>1,2</sup> The contribution of non-food goods, excluding gasoline, to monthly inflation was 0.06 percentage points.

The contribution of services to the reduction in the overall price level at the end of August was 0.17 pp. (In July, on the contrary, the growth in prices for services led to an increase in monthly inflation by 0.74 p.p. due to a 9.94% m/m increase in prices for housing and communal services, which added 0.8 p.p. to the growth in the overall price level). At the end of August, due to seasonal factors, there was a significant decrease in prices for passenger transport services (5.08%) and telecommunications services (0.81%), which contributed negatively to monthly inflation by 0.11 p.p. and 0.02 p.p., respectively. However, in August, medical (1%) and housing and communal services (0.08%) became more expensive, which led to an increase in monthly inflation by 0.02 p.p. and 0.01 p.p., respectively. In addition, prices for hospitality (3.18%) and health resort services (4.45%) declined seasonally, but due to their small share in the consumer basket (0.4%), the cumulative contribution was limited to 0.01 p.p.

Seasonally adjusted annual (SAA) inflation in August decreased to 4.1% (Fig. 3), which is significantly lower than the level observed in July (8.4%). Seasonally adjusted annual growth in the overall level of food prices rose from

1 "Indians are making money": why gasoline prices are skyrocketing in Russia // Gazeta.ru. 2025. URL: <https://www.gazeta.ru/auto/2025/08/26/21591824.shtml>

2 On the trail of fuel. How Russia once again found itself on the brink of a gasoline crisis // Kommersant. 2025. URL: <https://www.kommersant.ru/doc/7975798>

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

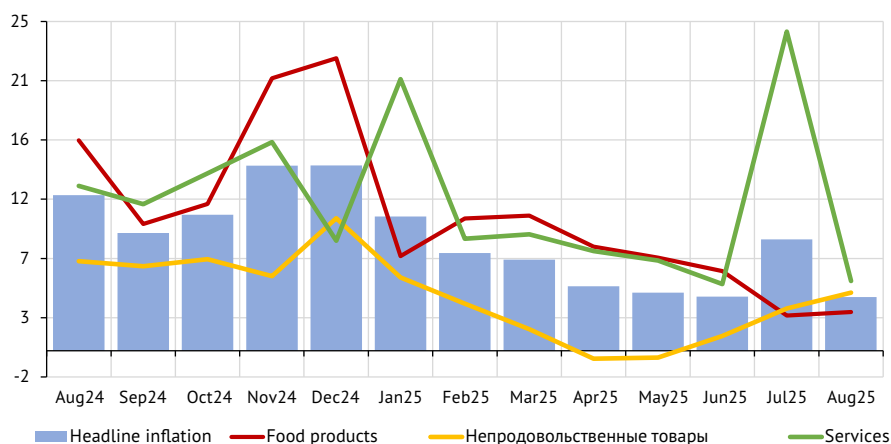


Fig. 3. Dynamics of headline inflation and its main components, % SAAR

Sources: Rosstat, own calculations.

2.7% to 2.9%, and for non-food items from 3.2% to 4.4%. Meanwhile, seasonally adjusted annual inflation in the services segment decreased from 24.2% to 4.1%.

According to the operational data of the Ministry of Economic Development of the Russian Federation, during the first 8 days of September, the overall price level increased by 0.09%, indicating growing price pressure, mainly due to higher inflation in the non-food segment (0.22%) caused by rising gasoline prices (0.59%).<sup>1</sup> According to our estimates, in Q4 2025, annual and current inflation will continue to slow down, with annual inflation falling to 6.3% by December 2025. The factors determining the future dynamics of annual inflation remain the dynamics of the ruble exchange rate under the influence of unfavorable changes in trade conditions, tensions in the labor market, and stimulative fiscal and tax policies. Thus, inflationary risks remain high, and a rapid easing of monetary policy in 2026 may not occur. According to our estimates, annual inflation is expected to slow to 5.8% by December 2026. ▲

<sup>1</sup> On the current price situation // Ministry of Economic Development of the Russian Federation. 2025. URL: [https://www.economy.gov.ru/material/file/51edaad8fa7d8054a40f0c5923376518/o\\_tekushchey\\_cenovoy\\_situacii\\_10\\_sentyabrya\\_2025\\_goda.pdf](https://www.economy.gov.ru/material/file/51edaad8fa7d8054a40f0c5923376518/o_tekushchey_cenovoy_situacii_10_sentyabrya_2025_goda.pdf)