

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

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INFLATION IS SLOWING, BUT SUSTAINABILITY OF THIS TREND IS IN DOUBT

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At its meeting on April 24, 2026, the Bank of Russia cut its key rate by 50 basis points to 14.5% per annum. In April, inflation slowed to 5.6% year-over-year. Seasonally adjusted monthly price growth on an annualized basis was below 4.0%, at 2.4%. However, significant inflationary risks remain high inflation expectations, wage growth outpacing labor productivity, and rising global inflation.

On April 24, 2026, the Bank of Russia decided to cut the key rate by 50 basis points to 14.5% per annum. The signal remained dovish – the Central Bank of the Russian Federation will assess the advisability of further lowering the key rate depending on the sustainability of the slowdown in inflation, the dynamics of inflation expectations, as well as the assessment of risks from external and internal conditions.¹ The outcome of the meeting was generally expected by most analysts, although some had anticipated a more substantial cut in the key rate – by 100 basis points. This cut marks the eighth since the start of the monetary policy easing cycle on June 6, 2025, from 21.0% per annum (the cumulative reduction in the key rate has reached 650 basis points) and the fifth consecutive decision with a 50-basis-point cut, indicating that the Bank of Russia is maintaining a cautious approach due to significant uncertainty regarding external conditions and fiscal policy parameters. In its updated medium-term forecast, the Bank of Russia maintained its inflation forecast range for the current year at 4.5–5.5% y/y, but narrowed the key rate range from 13.5–14.5% to 14.0–14.5% for 2026 and from 8.0–9.0% to 8.0–10.0% for 2027, signaling that monetary conditions will remain tight.

Inflationary risks still outweigh disinflationary risks over the medium term. However, the Bank of Russia has excluded a prolonged deviation of the Russian economy from a balanced growth trajectory from its list of inflationary risks, as the central bank assesses that the positive output gap has closed. According to Rosstat data, the economy contracted in the first quarter of 2026 – GDP fell by 0.2% year-on-year, which was significantly worse than the Bank of

¹ The Bank of Russia decided to lower the key rate by 50 basis points to 14.50% per annum // Bank of Russia. 2026. URL: https://www.cbr.ru/press/pr/?file=24042026_133000key.htm

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Russia's forecast (+1.6% year-on-year). Output contraction was observed in the construction sector (-10.0% y/y), transportation (-3.4% y/y), and manufacturing (-0.7% y/y). An additional negative effect was caused by both the smaller number of working days in January-February 2026 compared to the same period of the previous year and unfavorable weather conditions. Nevertheless, short-term expectations regarding demand and output in April improved among enterprises in most economic sectors. Regarding output, future trends were assessed more negatively by enterprises in industrial production, construction, and agriculture, while regarding demand, this was the case for enterprises in agriculture, the service sector, manufacturing, and the energy sector.¹ The Bank of Russia left its GDP growth forecast unchanged, expecting it to range from 0.5% to 1.5% in 2026 and from 1.5% to 2.5% in 2027.

It should be noted that the approved parameters of the 2026 budget imply a disinflationary effect, however, the potential increase in the non-oil and gas deficit, coupled with a downward revision of the 2026 GDP growth forecast from 1.3% to 0.4%, could create pro-inflationary risks and limit the scope for a faster reduction in the key rate. Planned expenditure growth for 2026 is 2.9%, which, given the current level of spending, implies a budget surplus of 2.1 trillion rubles from May through December; however, this appears unlikely. At the same time, the conflict in the Middle East, which led to a rise in global commodity prices, supported budget revenues, thereby reducing inflationary risks.

In May, the public's expectations (IE) for the coming year increased by 0.1 p.p. to 13.0%. The increase was driven by rising IE among respondents with savings (from 11.4% to 11.8%), while among respondents without savings, they declined (from 14.3% to 14.1%). Businesses' price expectations in April remained unchanged from March and were below the averages for 2025 and the first quarter of 2026, but significantly higher than the levels seen in 2017–2019, when inflation was close to the Bank of Russia's target. Given the consistent reduction in the key rate, the real interest rate in May stood at around 0% per annum based on inflation expectations (the lowest level since September 2023) and around 7% per annum based on current inflation. High inflation expectations remain a factor limiting the Bank of Russia's monetary policy easing.

In April, annual inflation over the past 12 months stood at 5.6% y/y (*Fig. 1*), down 0.3 p.p. from the previous month and 4.6 p.p. from April 2025. The main contributor to inflation was the rise in service prices – 2.8 p.p. (despite their smallest weight in the consumer basket). The contribution of rising food prices to annual inflation decreased by 0.3 p.p. month-on-month to 1.6 p.p. The smallest contribution to annual inflation came from changes in non-food prices – 1.3 p.p. (an increase of 0.1 p.p. month-on-month).

Seasonally adjusted annualized inflation (SAAR) fell to 2.4% in April (*Fig. 2*), marking the lowest level since the beginning of 2026. Food prices fell by 2.5% SAAR after rising by 3.9% SAAR the previous month, driven by an earlier-than-usual seasonal decline in fruit and vegetable prices. Price growth for non-food products slowed from 6.2% SAAR to 4.2% SAAR due to the strengthening of the ruble, while for services it slowed from 8.7% to 7.2%. Price growth for services remains significantly above the inflation target, reflecting high wage growth amid persistently low unemployment. The growth rate of nominal wages for January-February 2026 was 15.4% y/y, and 8.9% y/y in real terms.

¹ Business Monitoring // Bank of Russia. 2026. URL: <https://www.cbr.ru/Collection/Collection/File/60834/0426.pdf>

Inflation is slowing, but sustainability of this trend is in doubt

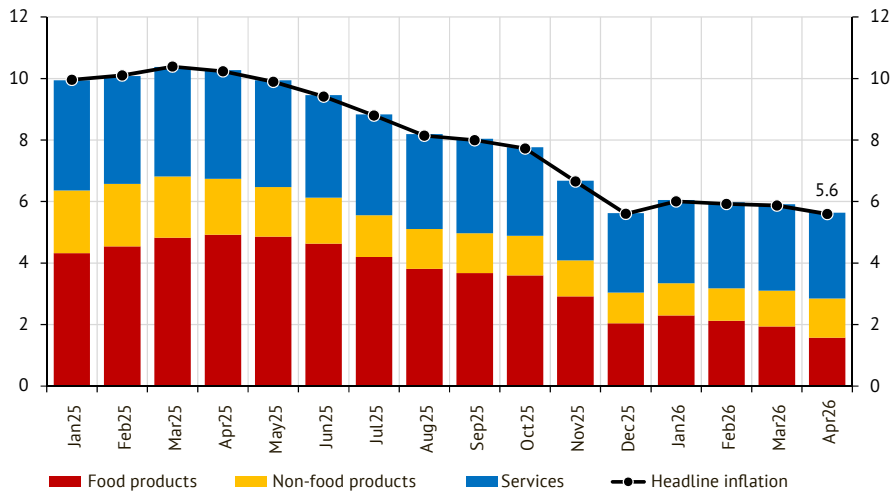


Fig. 1. Components contribution to consumer inflation over the past 12 months, p.p.

Source: Rosstat.

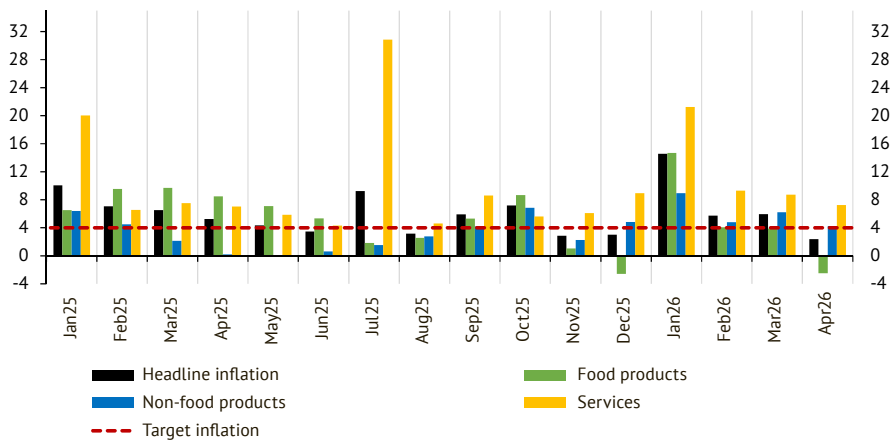


Fig. 2. Dynamics of headline inflation and its main components, % SAAR

Sources: Rosstat, CB, own calculations.

According to our estimates, inflation continues to slow through 2026. However, by the end of 2026, any further decline is unlikely to be significant. Elevated inflation expectations and accommodative fiscal policy remain the key factors shaping the future trajectory of annual inflation. At the same time, there are risks of a significant decline in oil prices and the ruble exchange rate should the situation in the Middle East stabilize. Thus, inflationary risks remain high, and a rapid easing of monetary policy in 2026 is unlikely to occur. ▲