MONITORING
OF RUSSIA'S ECONOMIC OUTLOOK
trends and challenges
of socio-economic development

Gaidar Institute

15(220) July 2026

INFLATION IN THE RUSSIAN FEDERATION HAS ACCELERATED

Gleb Barabanov, Researcher, Monetary Policy Department, Gaidar Institute;
Evgeny Goryunov, Candidate of Economic Sciences, Head of Monetary Policy Department, Gaidar Institute;
Pavel Trunin, Doctor of Economic Sciences, Leading Researcher, Center for Macroeconomics and Finance, Gaidar Institute

After a slight decline in previous months, inflation picked up again in June 2026, driven primarily by a negative supply shock due to problems in the fuel market. As a result, annual inflation rose from 5.3% in May to 6.0% in June (core inflation remained virtually unchanged: 5.0% y/y in June, compared to 4.9% y/y in May). Meanwhile, seasonally adjusted monthly inflation on a y/y basis rose to 10.6% in June, up from 2.0% in May. Prolonged and significant rise in gasoline and diesel prices could trigger secondary effects, raising inflation expectations and accelerating price growth across a wide range of goods and services. All other things being equal, this would require the Bank of Russia to adopt a tighter monetary policy.

According to Rosstat, annual inflation in June stood at 6.0% y/y, up 0.7 p.p. from the previous month. The main driver of the acceleration in inflation was the rise in price growth for volatile items in the consumer basket – fruits, vegetables, and gasoline. According to our estimates, these items collectively accounted for 0.6 p.p. of the 0.7 p.p. increase in the annual rate. As a result, the contribution of both food and non-food components to annual inflation increased (*Fig. 1*). Core inflation in June stood at 5.0% y/y, compared with 4.9% in May

Seasonally adjusted annualized monthly inflation (SAAR) in June also accelerated sharply to 10.6% (*Fig. 2*), following rates of 2.5% and 2.0% in April

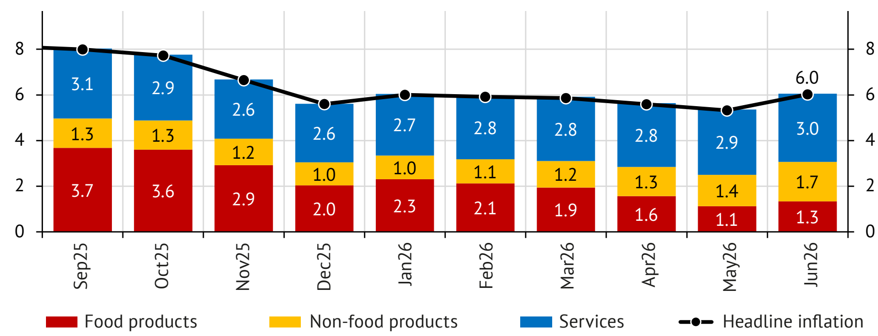

Fig. 1. Contribution of components to consumer inflation over the past 12 months, p.p.

Sources: Rosstat, own calculations.

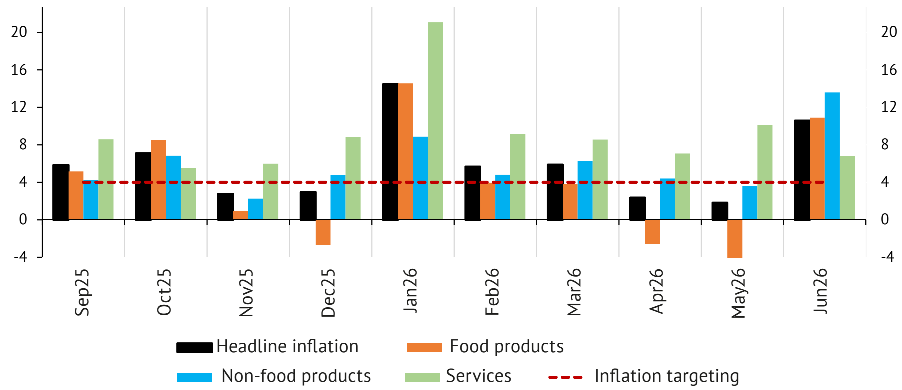

Fig. 2. Trends in headline inflation and its main components, % y/y

Sources: Rosstat, CB of Russia, own calculations.

and May, respectively. This is primarily due to rising prices for fuel and petroleum products. In particular, motor fuel prices rose by 6.5% in June, contributing up to 0.3 p.p. to headline price growth.

The June price increase was broad-based, prices rose for both food and non-food products, as well as, to a lesser extent, services. Food prices rose by 10.9% (SAAR) in June, following a 5.1% (SAAR) decline in May. The rise in food prices was primarily driven by higher prices for fruits and vegetables, which had been climbing ahead of the widespread availability of the new harvest. Excluding fruits and vegetables, the food basket rose by 4.1% (SAAR) in June, following a 1.3% increase in May. Non-food products rose in price by 13.6% (SAAR) in June, following a 3.7% increase in May, with the main price increase observed in the petroleum products segment, as the rate of price growth for non-food products excluding petroleum products slowed to 1.3% (SAAR) from 2.1% in May (SAAR). In the services sector, price growth rates continued to decline, although they remain consistently and significantly above the inflation target. By the end of June, services had risen in price by 7.8% (SAAR), while the corresponding figures for April and May were 7.2% and 10.1% (SAAR).

The emerging inflation picture will prompt the Bank of Russia to seriously consider keeping the key rate unchanged at its July 24 meeting, although on June 19, 2026, the Bank of Russia decided to lower the key rate by 25 basis points to 14.25% per annum. The signal at that time remained dovish – the Central Bank of the Russian Federation planned to assess the advisability of further lowering the key rate depending on the sustainability of the slowdown in inflation, the dynamics of inflation expectations, and an assessment of risks arising from external and domestic conditions. The outcome of the meeting came as a surprise to the markets – most analysts forecast a 50 basis point cut in the key rate. This marked the ninth key rate cut since the start of the monetary policy easing cycle (June 6, 2025) from a level of 21.0% (the cumulative key rate cut reached 675 basis points). The Bank of Russia reduced the size of the cut to 25 basis points – prior to this, the key rate had been cut five times in a row by 50 basis points each time. The reduction in the cut size pointed to increased inflationary risks in the economy since the April meeting, which – in addition to the scale of the fuel crisis, which was not yet apparent at that time – were driven by the following factors.

Firstly, fiscal policy became more expansionary than previously expected: the return to a zero primary structural budget balance has now been postponed from 2026 to 2029, which means an increase in the public sector's contribution to aggregate demand. According to the Russian Ministry of Finance, the federal budget for January-June 2026 posted a deficit of Rb5.7 trillion (2.5% of GDP), which is Rb2.3 trillion more than in the same period of 2025. Oil and gas revenues totaled Rb3.7 trillion, which is 22.7% less than in January-June 2025, primarily due to lower oil prices. Non-oil and gas revenues increased by 16.3% y/y to Rb15.0 trillion in January-June 2026, while expenditures for the same period rose by 16.1% y/y to Rb24.4 trillion.

Secondly, the unemployment rate has remained within the range of 2.2–2.1% in recent months. Nominal wage growth slowed to 11.9% y/y in April from 15.4% in March, while m/m data show a slight decline in real wages (a 0.9% m/m SA decrease in April). Household demand remains relatively high. In May, retail sales rose by 7.8% y/y, following a 6.5% y/y increase in April, while growth in demand for services slowed slightly – from 3.2% y/y in April to 2.0% y/y in May.

Thirdly the ongoing issues in the fuel market are leading to higher logistics and production costs, which are creating secondary pro-inflationary effects on core inflation and the inflation expectations of households and businesses. In June, the public's inflation expectations (IE) fell to 12.4% from 13.0% in May; however, these figures likely did not yet reflect the impact of the fuel crisis, so the July figures will be more representative for the purpose of making further monetary policy decisions.

Fourthly, the annual growth rate of the broad money supply M2X has been rising over the past three months. According to the Bank of Russia's estimates, as of the end of June, the 12-month growth rate of M2X stood at 13.0%, exceeding the corresponding figures for May (12.2% growth) and April (11.7% growth). Other monetary aggregates (M2 and M1) are also showing accelerating growth. Lending activity remains robust: the annual growth rate of banks' claims on nonfinancial corporations and households stood at 13.3% as of the end of June (13.2% in May and April) and 4.8% (4.4% in April and 4.6% in May), respectively.

According to our estimates, in Q2 2026, the decline in annual inflation will come to a halt due to negative supply shock in the motor fuel production sector. Under such conditions, monetary policy will remain tight, with a possible suspension of the easing cycle. As a result, by the end of 2026, inflation may exceed 6%.