Section 1
Monetary and budgetary sphere

1.1. Monetary policy[1]

1.1.1. Main trends of monetary policy

In 2024, monetary policy of the Bank of Russia was performed amid rapid increase in aggregate demand compared to the supply expansion opportunities, accompanied by a significant growth in consumer prices and inflation expectations. In such circumstances, the CBR pursued a tight monetary policy aimed at achieving price stability.

Monetary policy tightening started in H2 2023. Following five rounds of key rate hikes in December 2023, the key rate reached 16% p. a. (7.5% p. a. in July 2023), inflation stabilized at 7.4%, and inflation expectations were declining in Q1 2024. Nevertheless, these measures were insufficient to curb further price growth, which started in Q2 2024. As a result, since July 2024, the Central Bank of Russia raised the key rate three times: on July 26 by 2 p. p. to 18% per annum, on September 13 by 1 p. p. to 19% per annum, and on October 25 by 2 p. p. to 21% per annum (*Fig. 1*). Thus, in October 2024, the key rate reached its maximum value since 2013, i. e. for the entire period of using this indicator. On December 20, 2024, the regulator maintained the key rate unchanged despite steady inflationary pressure and growth of inflation expectations. This decision was due to rising interest rates for final borrowers and slowdown in credit activity at the end of the year. The signal regarding further trend of monetary policy remained tight, indicating the probability of rate hikes in 2025. Taking into account that after several stages of rate hikes lending growth rates remained at a high level, mainly at the expense of the corporate sector, the CBR still plans to maintain long term tight monetary policy in the economy. Furthermore, growing budget expenditures and the associated federal budget deficit in 2024 will also put significant pro-inflationary pressure.

1. Authors: *Bozhechkova A. V.,* Candidate of Economic Sciences, Senior Researcher, Monetary Policy Department, Gaidar Institute; *Trunin P. V.,* Doctor of Economic Sciences, Leading Researcher, Center for Macroeconomics and Finance, Gaidar Institute.

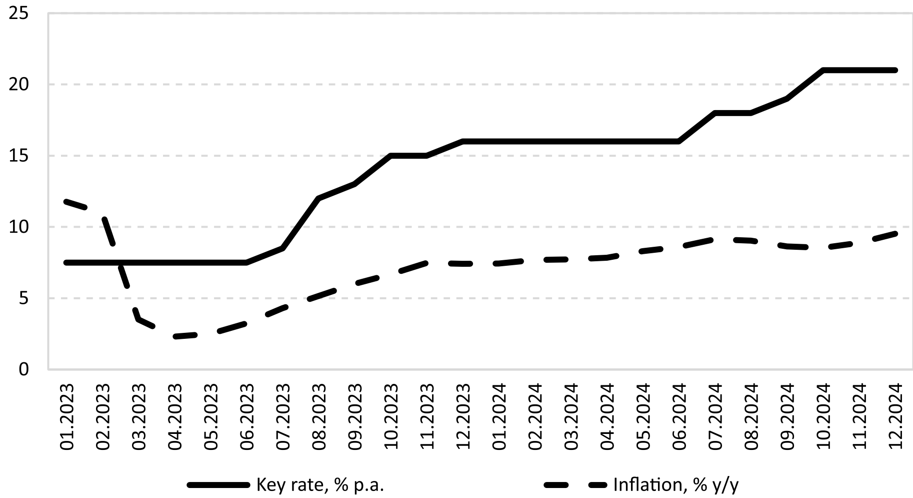


Fig. 1. **Dynamics of the CBR key rate (% p. a.) and inflation (%) in 2024**
Source: Bank of Russia.

Additional assumptions for maintaining tight monetary policy were developed by a significant weakening of the ruble, beginning in October 2024 and reaching peak values at the end of November (Rb109.6 per US dollar). The exchange rate dynamics became an additional factor in accelerating inflation in late 2024 — early 2025. Despite the ruble support provided by the stable trade surplus and operations of the Russian monetary authorities to net-sell foreign currency on the domestic foreign exchange market, the sharp ruble weakening was due to new difficulties in cross-border settlements caused by new sanctions against Russia. To reduce volatility on financial markets, the regulator suspended purchases of foreign currency on the domestic foreign exchange market until the end of the year. However, the Bank of Russia continued to sell yuan in the equivalent of Rb8.4bn per day from November 29 to December 31, 2024. Risks of ruble weakening amid sanctions pressure will continue to remain a significant pro-inflationary factor.

During 2024, the CBR has repeatedly revised inflation forecast and the expected trend of the key rate, taking into account changing external economic conditions and dynamics of domestic economic activity. In February 2024, inflation rate projected at the end of the year was 4.0–4.5% with the average annual rate of 13.5–15.5% per annum. In April, the Bank of Russia raised its inflation forecast to 4.3–4.8% with the key rate of 15.0–16.0% per annum. However, due to continuing growth of domestic demand exceeding the supply capacity, the ongoing shortage of workers on the labor market and the increase in government spending in October 2024, the Bank of Russia raised its inflation forecast for the end of 2024 to 8.0–8.5% with the average annual rate of 17.5% per annum. The forecast for inflation at the end of 2025 is increased to 4.5–5.0%, and the forecast for average inflation in 2025 has increased to 6.1–6.8%. Thus, the average real rate of interest next year is projected to be above 10%. The long-term neutral interest rate is currently estimated by the Bank of Russia at 3.5–4.5%.[1] This means that the Bank of Russia will maintain a higher level of nominal interest rates on average in the future.

Table 1

Bank of Russia medium-term forecast

Month of forecast publication	February 2024	April 2024	July 2023	October 2024
Inflation in %, December 2024 vs. December 2023	4.0–4.5	4.34.8	6.5–7.5	8.0–8.5
Average inflation for 2024, in % vs. previous year	6.0–6.5	6.2–6.4	7.8–8.0	8.2–8.4
Average annual key rate in 2024 (% p. a.)	13.5–15.5	15.0–16.0	16.9–17.4	17.5

Source: own estimates based on mid-term forecasts of the Bank of Russia.

Trends in monetary policy for 2024 typical for the Russian economy differed from the global trends. This is due to structural transformation, high uncertainty and external sanctions. In 2024, in most countries trends of inflation slowdown that began in 2023 continued. This is due to the impact of tightening of monetary policy in 2022–2023 and stabilization of world prices for food and energy products. Thus, the rate of consumer price growth in the US fell from 3.4% in December 2023 to 2.9% in December 2024, in the Eurozone from 2.9% in December 2023 to 2.4% in December 2024, in the UK from 4.0% in December 2023 to 2.5% in December 2024.

In 2024, monetary authorities in most developed countries switched to a gradual easing of monetary policy. In the US, the federal funds rate fell to 4.5% in December 2024 (5.5% in December 2023), while in the Eurozone the rate fell to 3.15% (4.5% p. a. in December 2023). Amid slowing inflation, central banks in a number of developing countries,[2] targeting inflation, have also switched to lowering interest rates. Thus, in Mexico, the key rate fell from 11.25% in December 2023 to 10% in December 2024, in Chile from 7.25% in December 2023 to 5% in December 2024, in South Africa from 8.25% in December 2023 to 7.75% in December 2024. In addition to Russia, the central bank of Turkey (from 42.5% in December 2023 to 47.5%

1. Main trends of the unified state monetary policy for 2025 and the period of 2026 and 2027.
2. The review includes developing countries targeting inflation, exporting commodities and countries comparable to Russia in terms of economic development

in December 2024) and the Central Bank of Brazil (from 10.5% in August 2024 to 12.25% in December 2024) increased the key rate (*Table 2*).

Table 2

Inflation and key rate in a number of developed and developing countries

	Real inflation, December 2024 vs. December 2023, %	Key rate at the end of December 2024, % p. a.
Developing countries		
Poland	4.70	5.75
Indonesia	1.57	6.0
India	5.22	6.5
Peru	1.97	5.0
Chile	4.5	5.0
South Africa	3.0	7.75
Hungary	4.6	6.5
Brazil	4.83	12.25
Mexico	4.21	10.0
Columbia	5.2	9.5
Kazakhstan	8.6	15.25
Russia	9.5	21.0
Turkey	47.5	50.0
Developed countries		
Australia	2.4	4.35
Norway	2.2	4.5
EU	2.4	3.15
Canada	1.8	3.25
Great Britain	2.5	4.75
USA	2.9	4.5
New Zealand	2.2	4.25
Czech Republic	3.0	4.0
Iceland	4.8	8.5

Source: Central banks' websites.

In 2024, in most developed and developing countries real interest rates measured as the difference between the key rate and inflation for the previous 12 months were positive (12.5% p.a in Russia, 5.99% p.a in Brazil, 5.75% p. a. in Kazakhstan, 5.74% p. a. in Mexico, 2.4% p. a. in the USA, 1.1% in the EU). Among reviewed countries, Russia is the leader in terms of real key interest rate by the end of October 2024 (*Fig. 2*).

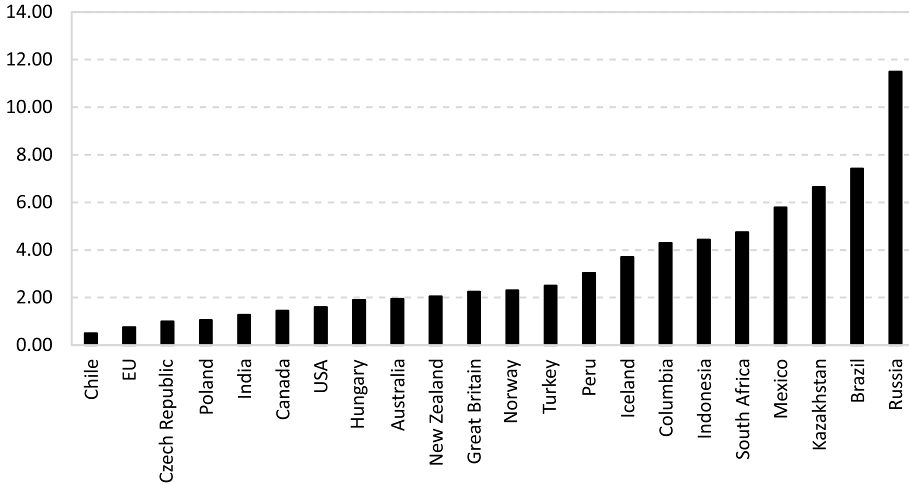


Fig. 2. **Real key interest rate at the end of October 2024, % p. a. (measured based on inflation over the previous 12 months)**

Sources: Central banks' websites, own estimates.

On the whole, inflation, both headline and core, in most of the surveyed countries continues to exceed the target benchmarks, indicating an increased price pressure. Persisting risks of disinflation slowdown due to possible protectionist measures of the new U.S. administration, due to rising world food and energy prices determine slow pace of monetary policy relaxation.

1.1.2. Money market

In 2024, the situation in the money market of the Russian Federation evidenced gradual reduction in the liquidity surplus[1] from Rb 1.4 trillion in January 2024 to Rb 0.5 trillion in September 2024. In October-December 2024, a liquidity deficit in the money market averaged Rb 0.6 trillion (*Fig. 3*).

1. According to the Bank of Russia, structural liquidity deficit/surplus defines the difference between the debt on refinancing operations and absorption operations by the Bank of Russia. Structural liquidity deficit of the banking sector means its status marked by a stable need of credit institutions to attract liquidity using operations with the Bank of Russia. The reverse situation is the stable need of credit institutions to deposit funds with the Bank of Russia, thus constituting a structural liquidity surplus. Since November 2023, the Bank of Russia has clarified a methodology for calculating liquidity deficit/surplus of the banking sector. Now, when assessing the indicator, the balance between banks' correspondent account balances and the averaged required reserves ratio (RRR) is taken into account. Accounting the balance between banks' correspondent accounts and RRR in the calculation allows to exclude the impact on the indicator of operations that reflect the banks' strategies to maintain the RR.

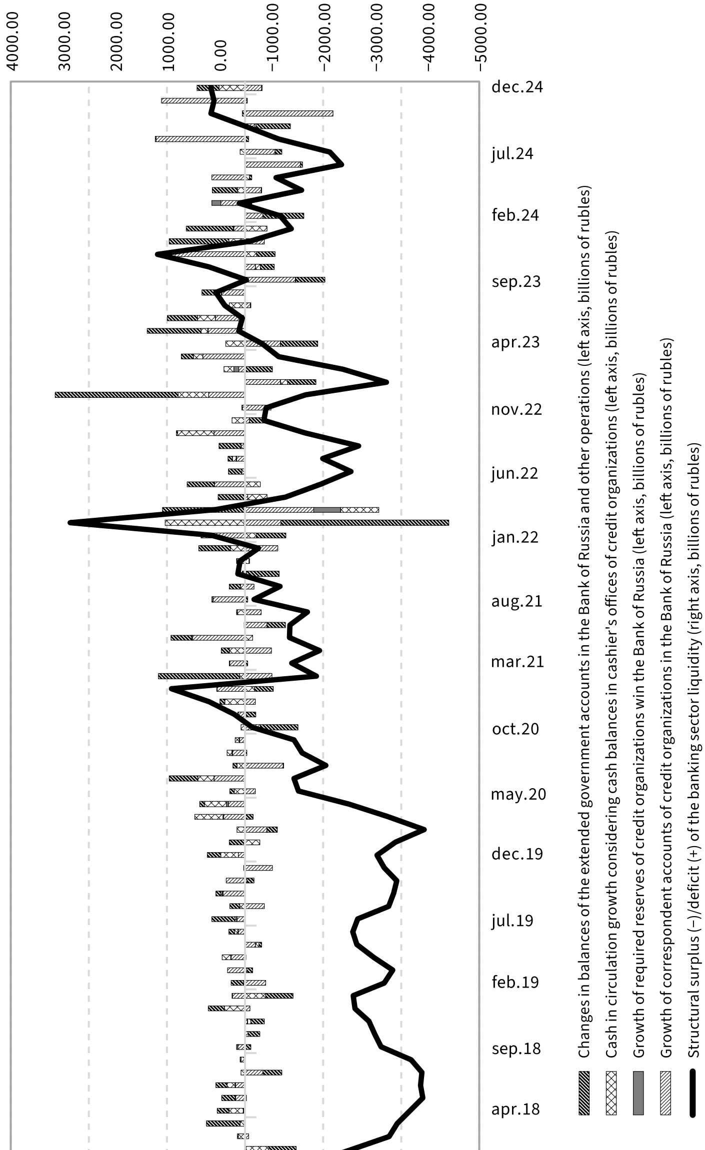


Fig. 3. Structural liquidity surplus of the banking sector and its components, 2017–2024

Source: Bank of Russia.

Gradual decline in the liquidity surplus and its transition to a deficit is mainly due to the Bank of Russia's operations in the domestic foreign currency exchange market related to replenishment and utilization of the National Welfare Fund (NWF), including all operations with the NWF in 2023.

Thus, mirroring[1] of current operations of the RF Ministry of Finance as part of budget rule had a neutral impact on liquidity. Nevertheless, deferred operations resulted in liquidity outflow from banking sector. This effect was partially compensated by the inflow of funds from the National Wealth Fund into banking sector as part of investment operations in authorized financial assets. In 2024, transactions of the Russian monetary authorities on net sale of foreign currency in the domestic foreign exchange market amounted to Rb1.5 trillion. The volume of foreign currency purchases as part of regular operations under the budget rule (in the amount of additional oil and gas revenues) in 2024 amounted to Rb1.1 trillion[2], whereas the volume of adjustments[3] to operations announced by the RF Ministry of Finance under the budget rule, which affected the reduction of liquidity in the banking sector in terms of currency sales from the NWF amounted to about Rb2.6 trillion.

Reduction in the demand for cash contributed positively to forming liquidity of the banking sector. The share of cash in M2 money supply fell by 2.7 p.p. from 17.4% at the beginning of the year to 14.7% in December 2024. This was due to stabilization of demand for cash, as well as high attractiveness of deposit rates.

In 2025, banking sector is expected to switch from surplus to liquidity deficit and its gradual growth. This will happen due to mirroring by the Bank of Russia of the operations in excess of the budgetary rule performed in 2024, leading to an outflow of funds from banks. Moreover, growth in the volume of cash in circulation and growth of required reserves will result in an increase in the liquidity deficit.

It is worth recalling that the Bank of Russia decided not to purchase foreign currency on the domestic foreign exchange market from November 28, 2024 until the end of 2024 as part of mirroring the regular operations of the RF Ministry of Finance related to implementing the budget rule. Deferred purchases will be made during 2025, thus supporting banking sector liquidity in the amount of Rb0.1trillion.

1. Operations performed by the Bank of Russia in the foreign exchange market aimed to ensure neutrality of the impact of operations under the budget rule on the money market. Besides, investment of NWF funds requires their withdrawal from the liquid part of NWF denominated in foreign currency, sale of foreign currency on the foreign exchange market and purchase of ruble assets. Sale of foreign currency from NWF is mirrored by the RF Central Bank in the foreign exchange market.
2. RF Ministry of Finance. Evidence on forming and using additional oil and gas revenues of the federal budget in 2018–2024.
3. Regular transactions under the budget rule are adjusted for the balance of the following transactions: the difference between the amount of currency purchases deferred from August 10 to December 31, 2023 under the budget rule and the amount of expenditures of the NWF to finance the budget deficit for 2023 beyond the budget rule, as well as currency sales in the amount of net investment of the NWF.

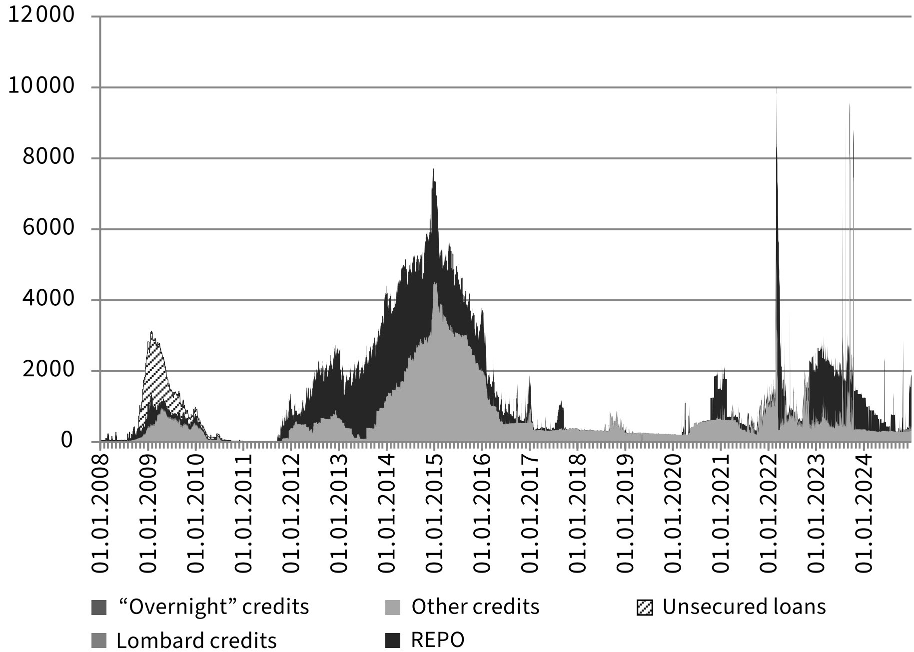


Fig. 4. **Debt of commercial banks to the Bank of Russia in rubles, 2008–2024.**

Source: Bank of Russia.

With the banking sector's liquidity surplus declining and its transition to a deficit during 2024, by the end of 2024 the value of loans attracted by credit institutions from the Bank of Russia increased 1.2 times to Rb 4.8 trillion (Rb 3.9 trillion as of January 1, 2024) (*Fig. 4*). The largest amount of the Bank of Russia's claims on credit organizations was for loans secured by non-marketable assets as part of main liquidity provision mechanism. On average, in December 2024, the amount of banks' indebtedness under this type of lending amounted to Rb 3.4 trillion or 2.4 times higher than in December 2023. It has to be noted that a significant increase in demand for liquidity on the part of banking system was observed in March 2024 due to cancellation of short-term liquidity ratio relaxations.[1] Debt on loans against non-marketable assets provided under additional mechanism increased by 24% over 12 months and amounted to Rb 0.1 trillion in December 2024. As a reminder, the task

1. Since 2016, systemically important credit organizations (SICOs) are required to comply with the Basel short-term liquidity ratio, which is defined as ratio of highly liquid assets to net cash outflows over 30 days. Between 2022 and 2023, the regulator allowed the SICOs to reduce the norm below 100% amid sanctions and systemic stress, but from March 1, 2024, the largest banks must again comply with the norm at 100%.

of the core mechanism operations is to achieve operational objective of monetary policy, i.e. to maintain money market rate close to key rate. Additional mechanism is used by the Bank of Russia to provide liquidity to credit organizations that do not have sufficient collateral. From November 6, 2024. The Bank of Russia stopped accepting new loans into the collateral pool under main liquidity provision mechanism to reduce the incentives for credit institutions to use monetary policy operations to comply with the short-term liquidity ratio.

Banks' debt on REPO auctions in 2024 averaged Rb 0.4 trillion, or 3.5 times lower than in 2023, when this indicator averaged Rb 1.4 trillion. The reduction of banks' indebtedness through this channel is probably due to the desire to preserve market collateral in case of prompt replenishment of liquidity. On average, in 2024 the demand for lombard loans did not change compared to 2023, the average debt of banks on this type of lending amounted to Rb 17.9 bn.

In 2024, amid structural liquidity surplus, the banking sector continued to demand deposit auctions of the Bank of Russia. This was also due to the heterogeneous liquidity position among banks: some banks attracted funds, while others, on the contrary, placed them on deposits. Funds placed under weekly deposit auctions averaged Rb 2.6 trillion at a weighted average rate of 17.4% p.a. (Rb 2.2 trillion in 2023 at a weighted average rate of 10% p.a.). To maintain short-term money market rates close to key interest rate in 2024, the Bank of Russia repeatedly conducted "fine-tuning" 1-day deposit auctions. The average amount of funds raised under these transactions amounted to Rb 1.3 trillion at a weighted average rate of 16.8% p.a. (Rd1.1 trillion in 2023 at a weighted average rate of 10.2% p.a.).

In 2024, amid structural liquidity surplus, the MIACR rate was mainly in the lower part of the interest rate corridor and its spread to key rate averaged −0.2 p.p. (*Fig. 5*). As monetary policy tightens, on average, the MIACR rate reached 17.3% p.a. in 2024 (averaging 9.79% p.a. in 2023). It should be noted that volatility (standard deviation) of the interbank lending rate spread to key rate in 2024 increased by 1.3 times compared to 2023 (from 0.28 to 0.37 p.p.). High demand of commercial organizations for the Bank of Russia's loans had a restraining effect on the short-term money market rate. This caused a reduction in the demand for borrowing on the money market, even despite expectations of an increase in key rate.[1]

In 2024 monetary base in broad definition grew by 5.5% to Rb 27,958bn (in 2023 it rose by 8.5% to Rb 26,507 bn). Among the fastest growing components of the broad monetary base in 2024, it is possible to single out mandatory reserves (+83.8% to Rb 499.3 bn). This was due to growth in the volume of deposits with banks and, therefore, in the volume of reserved liabilities. Banks' deposits with the Bank of Russia increased by 25.3% to Rb 4,239 bn, correspondent accounts of credit organizations by 3.9% to Rb 4,708.8 bn. The amount of cash in circulation remained stable, increasing by only 1% to Rb 18,511 bn in 2024, which is due to the total stabilization

1. Monetary conditions and transmission mechanism of monetary policy No. 10 (28) October 2024.

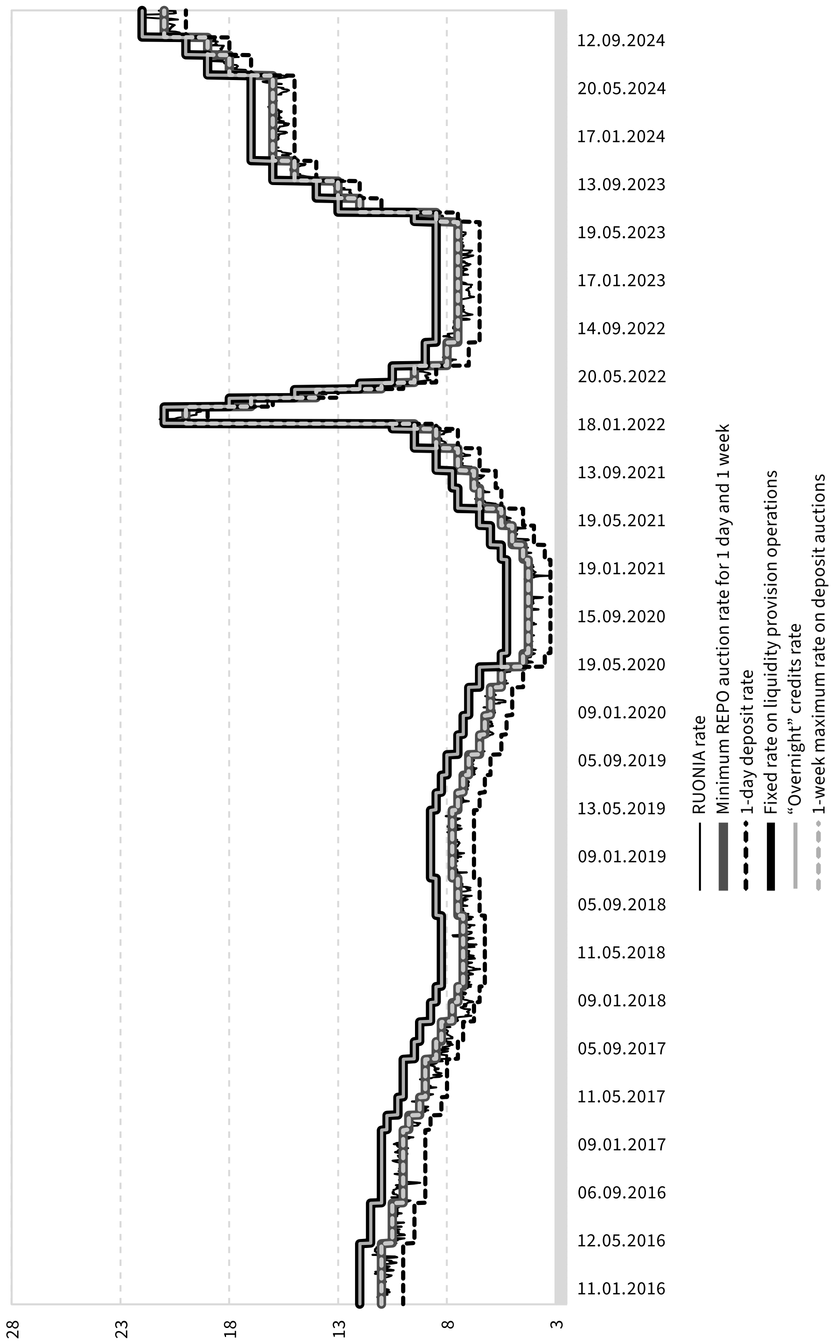


Fig. 5. Bank of Russia interest rate corridor and dynamics of interbank market rates, 2016–2024

Source: Bank of Russia.

of demand for cash, as well as to maintenance of attractive rates on deposits. In total, the volume of excess reserves[1] in 2024 grew by 13% and amounted to Rb 8948 bn (*Table 3*). Growth of excess reserves is due to increased demand of banks for liquidity in the context of expectations of key rate increase, as well as the need to comply with short-term liquidity requirements.

Table 3

Dynamics of monetary base in broad definition in 2023–2024, billion rubles

	01.01.2023	**01.01.2024**	**01.01.2025**
Monetary base (broadly defined)	24 428.6	26 506.8	27 958.4
— cash in circulation taking into account balances in the cash offices of credit organizations	16 347.7	18 320.7	18 511.2
— correspondent accounts of credit organizations with the Bank of Russia	2983.6	4530.5	4708.8
— Required reserves	145.9	271.7	499.3
— deposits of credit organizations with the Bank of Russia	4951.4	3383.9	4239
— the Bank of Russia bonds from credit organizations	0.0	0.0	0.0
Reference: excess reserves	7935	7914	8948

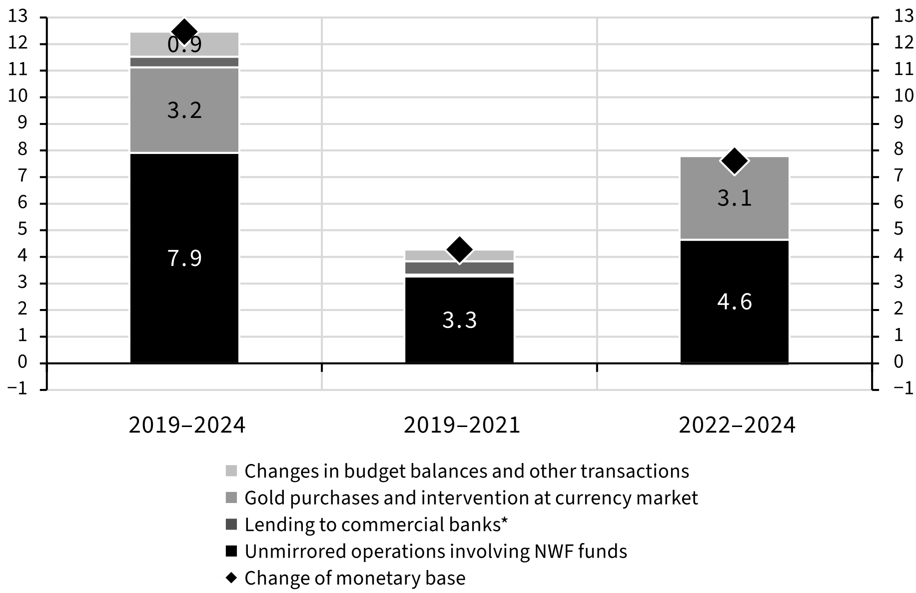
Source: Bank of Russia.

Key factors in shaping monetary base include the CBR's budget, credit organizations ("COs"), other operations, including, first of all, building up international reserves and the CBR's operations with gold[2] (*Fig. 6*). It should be noted that most of withdrawals from the NWF to finance the deficit and investment projects were made in 2022–2023 (Rb 8.8 trillion). Thus, during the period of spending of the NWF funds having no possibility of corresponding "mirroring", budget expenditures became one of the reasons for accelerated growth of monetary base. Thus, in the period from 2022 to 2024, major contribution to the increase in the monetary base was made by the Ministry of Finance's operations involving the NWF funds, that were not sterilized (Rb 4.6 trillion or 61% of the total growth of monetary base).

Thus, during the period of spending of the NWF funds having no possibility of corresponding "mirroring", budget expenditures became one of the reasons for accelerated growth of monetary base. Thus, in the period from 2022 to 2024, major contribution to the increase in the monetary base was made by the Ministry of Finance's operations involving the NWF funds, that were not sterilized (Rb 4.6 tril-

1. Excess reserves of the banking system include deposits of credit organizations with the Bank of Russia, correspondent accounts of credit organizations with the Bank of Russia, and bonds of the Bank of Russia held by credit organizations.
2. *S. M. Drobyshevsky* et al. Causes of increased inflation in the Russian economy //Voprosy Ekonomiki — 2025. — No. 1. — p. 5–31.

lion or 61% of the total growth of monetary base). The Bank of Russia's lending to commercial banks made a comparable contribution to monetary base dynamics: in 2022–2024, it amounted to Rb 3.1 trillion or 41.2% of the total growth of monetary base. In the period from 2022 to 2024, growth of monetary base due to purchasing gold by the Bank of Russia and its intervention in the foreign exchange market was negative (Rb −0.1 trillion). The remaining growth of monetary base in the period 2022–2024 (Rb −0.1 trillion) is associated with changes in budget balances on accounts with the Bank of Russia and other operations affecting monetary base (e. g., the Bank of Russia's claims on other financial organizations).



* The Bank of Russia's one-time effect of withdrawal from Sberbank's capital in 2020 amounting to Rb 2.139 trillion was taken into account.

Fig. 6. Factors of broad money base shaping (trillion rubles)

Sources: Bank of Russia, Ministry of Finance, own estimates.

The average monthly growth rate of money supply M2 in 2024 amounted to 19%, while in 2023 it was 23.2%. Given that the average growth rate of monetary base in 2024 amounted to 9.8%[1] (21,4% in 2023), monetary multiplier (the ratio of M2 aggregate to monetary base) was equal to 3.8 (3.6 in 2023). Growth of M2 money supply can be explained by expanding requirements of the banking system to the eco-

1. Average growth rate (month vs. corresponding month of the previous year) calculated based on geometric mean.

nomy, while the greater contribution in H2 2024 was made by growing corporate lending, mainly in segments insensitive to tight monetary conditions (housing construction, lending for investment projects started earlier (including those under government orders), etc.). Expectations of further growth in car prices, including due to the increase in the utilization fee, contributed to higher volumes of car loans. Slowdown in consumer lending growth was due to tightening macroprudential regulation and rising interest rates. Mortgage loan growth slowed expectedly due to a significant reduction in government support.

Thus, one of key reasons for accelerating growth in money supply were the RF Government's non-mirrored operations with the NWF funds. Due to increase in the credit multiplier, the contribution of these operations to growth of money supply was somewhat lower. Thus, approximately half of the money supply growth in the period under review can be explained by use of the NWF funds excluding corresponding sale of foreign currency. The most important source of money supply growth is growth in economic lending, ensuring multiplication of money supply, which has significantly accelerated since mid-2022 amid favorable lending programs and reduction of the required reserve ratio. It should be noted that accelerated growth of money supply causes an increase in the growth rate of consumer prices in recent years.

1.1.3. Inflation

In 2024, inflation accelerated as a result of growing aggregate demand compared to the potential for supply expansion, including due to a soft fiscal policy. The steady rise in annual inflation (over the last 12 months) started as early as May 2023, from 2.7% in May 2023 by May 2022 to 7.4% in December 2023 by December 2022, and continued through Q2 2024, peaking at 9.1% in July 2024 *(Fig. 7)*. Later on, inflation slowed down to 8.5% in October 2024 vs. October 2023, which corresponds to the level of December 2021. Nevertheless, in November-December 2024, inflation accelerated again to 9.5% vs. December 2023, exceeding the upper limit of the Bank of Russia's forecast (8.0–8.5%). This was facilitated by a significant ruble depreciation in November 2024, growth of inflation expectations, structural constraints on supply with expanding aggregate demand.

Along with rising inflation since May 2023, there has been an increase in core inflation from 1.99% in April 2023 vs. April 2022 to 8.73% in June 2024 vs. June 2023, indicating that inflationary processes are sustainable. While core inflation exceeded overall inflation in H1 2024 (a spread of 0.1 to 0.4 pp in particular months), in contrast, core inflation was below overall inflation in H2 2024 (a spread of −0.4 to −0.6 pp. This means that in H2, in addition to accelerating stable component of inflation (cleared of the influence of administrative and seasonal factors), which makes the largest contribution to overall inflation, rising prices of adjustable and volatile components (which take into account conjunctural factors) also contribute to increase in consumer prices.

As before, the greatest contribution to annual inflation is due to rising prices of food products (consistent with their greater weight in the consumer basket). Food inflation at the end of December 2024 amounted to 11.05% vs. December.[1] (8,16% in December 2023 vs, December 2022). Butter was the leader in price growth (36.23% in December 2024 vs. December 2023), which is explained by growth in production costs and consumption. Prices for fruit and vegetables rose (22.09% in December 2024 vs. December 2023). Prices for milk and dairy products rose by 15.74% in December 2024 vs. December 2023, for bread and bakery by 13.22% in December 2024 vs. December 2023 (*Table 4*).

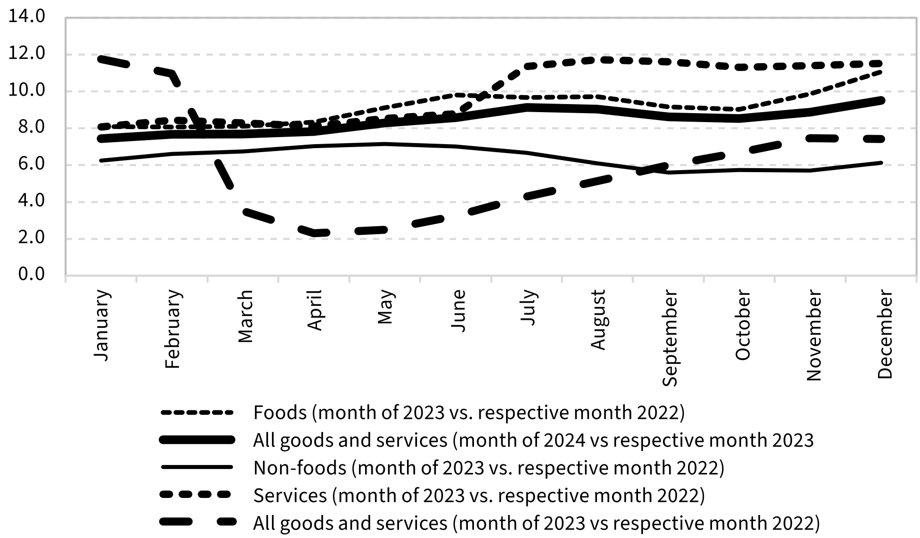


Fig.7. CPI growth rate in 2023–2024, % over the previous 12

Sources: Rosstat, own calculations.

Growth in non-food prices in December reached 6.12% vs. December 2023 (5.96% in December 2023 vs. December 2022). The fastest growing prices were observed for motor gasoline (11.13% in December 2024 vs. December 2023 vs. 7.23% in December 2023 vs. December 2022), medicines (10.61% in December 2024 vs. December 2023 vs. 7.9% in December 2023 vs. December 2022), construction materials (7.91% in December 2024 vs. December 2023 vs. 5.46% in December 2023 vs. December 2022).

Paid services to households in December 2024 increased by 11.52% vs. December 2023 (8.33% in December 2023 vs. December 2022). Thus, prices for foreign tourism services (14,82%), health and recreation (12,05%), passenger transport (10,77%),

1. Inflation for previous 12 months.

Table 4

Annual growth rate of prices for certain types of consumer goods and services in 2022–2024, %, December vs. December of the previous year

	2022	2023	2024	2022- 2024
CPI	**11.9**	**7.4**	**9.5**	**31.6**
Foods	**10.3**	**7.2**	**11.1**	**31.3**
Butter	14.7	3.5	36.2	61.7
Sugar	13.5	8.2	3.6	27.3
Eggs	−6.5	61.4	−11.2	34.1
Meat and poultry	4.0	16.2	6.0	28.1
Fruit and vegetables	−2.0	24.2	22.1	48.6
Dish and seafood	14.0	5.8	14.9	38.6
Bread and bakery	13.0	5.2	13.2	34.6
Milk and dairy products	15.2	0.5	15.7	34.0
Pasta	14.6	−3.8	2.9	13.4
Cereals and legumes	9.0	−2.4	3.6	10.2
Alcohol	8.1	2.5	8.3	20.0
Oil	5.2	−1.4	12.7	16.9
Non-foods	**12.7**	**6.0**	**6.1**	**26.8**
Detergents and cleaners	29.8	2.2	1.6	34.7
Tobacco	10.2	7.0	6.2	25.2
Construction materials	3.6	5.5	7.9	17.9
Medicines	10.8	7.9	10.6	32.2
Knitted garments	9.7	3.6	4.2	18.4
Gasoline	0.9	7.2	11.1	20.2
Clothes and underwear	7.9	3.2	3.6	15.3
TV and radio goods	−4.3	−6.2	2.2	−8.3
Services	**13.2**	**8.3**	**11.5**	**36.7**
Foreign tourism	70.7	24.8	14.8	144.6
Passenger transportation	10.7	15.7	10.8	41.9
Insurance	28.2	−1.1	3.1	30.7
Consumer services	11.0	8.5	10.6	33.2
Health and recreation	10.8	9.3	12.1	35.7
Medical services	11.7	7.8	10.5	33.0
Housing utilities	11.6	2.3	9.5	25.0
Education	6.1	8.2	10.6	27.0

Source: Rosstat.

hotels and other accommodation (10,94%), education (10,60%), medical services (10,48) grew quite rapidly). The indexation of housing and utilities tariffs to household in July by 9.9% made a significant contribution to rise in prices for paid services.

In total, decomposition of inflation by components shows that the largest contribution to inflation amounting to 9.5% in December 2024 was due to growth in prices for foods (4.2 p. p.) (their weight in the consumer basket is 38.1%). Contribution of services, despite their lowest weight in the consumer basket (27.8%), was comparable to the contribution of foods and amounted to 3.2 pp. Group of non-food products contributed 2.1 p. p. to the total inflation (*Fig. 8).*

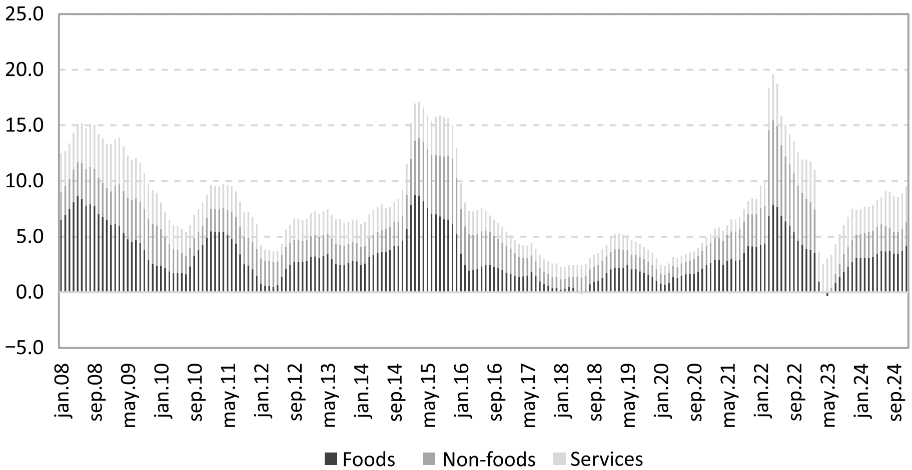


Fig. 8. **Structure of inflation in 2008–2024, %, month vs. respective month of the previous year**

Sources: Rosstat, own calculations.

As noted above, a significant contribution to the acceleration of money supply and inflation growth rates in recent years was made by the Ministry of Finance's operations on spending the NWF funds having no possibility of appropriate "mirroring." It is important to note that budget policy has been quite balanced over the last seven years. In 2019–2021, the average deficit of budget system amounted to 0.4% of GDP, and in 2022–2024, the average deficit increased to 1.8% of GDP. If 2018 is included, the average deficit over 7 years will amount to only 0.3% of GDP. Planned for 2025 federal budget deficit will amount to 0.5% of GDP (1.7% of GDP preliminary estimate for 2024), which evidences tightening of fiscal policy in 2025 and reducing pro-inflationary risks on the part of the budget.

Growing demand had an upward pressure on inflation in 2024. In 2024, retail trade turnover will increase on average by 7.35% per month vs. the respective month of the previous year (7.5% on average in 2023). Monthly growth of paid services to households in 2024 averaged 3.4% (6.9% on average in 2023). Real monetary incomes of households in 2024 grew quarterly by an average of 9.2% (5.4% on average in 2023).

According to the survey of LLC "InFOM", during 2024 inflation expectations of households were persistently high (12.8%). Having reached a local maximum of 14.2% in December 2023, in January-April 2024 inflation expectations of households declined to 11%. In the future, inflation expectations were growing, and in December 2024 they reached 13.9%. Price expectations of enterprises also remained elevated in 2024. They declined at the beginning of the year from 23.3% in December 2023 to 18.6% in March 2024. However, they reached 28.4% by December 2024 amid accelerating cost growth. High inflation expectations will contribute to persistence of elevated inflation in 2025.

A significant factor of inflation acceleration in 2024 was the restrictions of the economy's production capacity due to deep structural transformation, low unemployment (about 2.5%), high capacity utilization rate (about 80%), reduction of total factor productivity due to limited access to the most advanced technologies.

According to the Bank of Russia's forecast updated in February 2025, given the persistence of pro-inflationary risks, annual inflation in 2025 is expected to be in the range of 7.0–8.0%. Given the current monetary policy, annual inflation will fall to 4.0% in 2027 and will be at the target level thereafter. According to our model forecast[1,2] in 2025 there will be a gradual cooling of consumer and investment demand due to stringent monetary terms and tightened fiscal policy, which could result in a slowdown of annual inflation to 6.5% yoy by December 2025.

1.1.4. Balance of payments and exchange rate

According to preliminary assessment of the balance of payments for 2024 published by the Bank of Russia, the current account balance for 2024 amounted to $53.5bn, or 6.8% higher than in 2023 ($50.1 bn in 2023). Due to less detail of the balance of payments published by the RF Central Bank compared to previous periods, the structure of the current account can be described in terms of two main balances: trade in goods and services and balance of primary and secondary incomes.

The balance of trade in goods in 2024 was $122.6 bn, roughly the same as in 2023 ($121.6 bn). Exports of goods declined from $424.5 bn in 2023 to $417.2 bn in 2024 (down −1.7%). 2024 (down −1.7%), while imports of goods decline from $302.9 bn in 2023 to $294.5 bn in 2024 (down −2.8%). Such dynamics of exports is

1. Monitoring of economic situation in Russia. The Bank of Russia announced a prolonged period of tight monetary policy. *Y. N. Perevyshin, P. V. Trunin.* February 2024.
2. For more details on the model see the Article *Y. N. Perevyshin.* "Short-term inflation forecasting in the Russian economy" // Economic policy. 2022. V. 17. No. 5. p. 1–18.

due to declining world prices for basic goods of Russian exports (primarily oil, gas and petroleum products), which was observed along with a reduction in the physical volume of exports under sanctions. The drop in imports was observed in H1 2024 and was caused by a decline in physical volumes of supplies due to difficulties in settlements since the beginning of the year and weakening of the ruble compared to the previous year. According to Bank of Russia, the fall in the index of the real ruble-dollar exchange rate in January-June 2024 amounted to 8%, which is a significant weakening indicating a relative appreciation of import supplies.

Balance of trade in services in 2024 amounted to -$38.1 bn, which in absolute terms is 7.9% higher than negative value of the balance of trade in services for 2023 (−$35.3 bn). Growth of negative balance of trade in services is due to increase in imports of services at stable value volumes of exports of services. Thus, imports of services increased by 4.8% from $76.4bn in 2023 to $80.1 bn in 2024. Service exports amounted to $42.0 bn in 2024 ($41.2 bn in 2023).

Balance of primary and secondary incomes in 2024 fell compared to 2023. Thus, in 2024 it amounted to -$31.0 bn, which is 14.4% less in absolute terms than the same indicator in 2023 (-$36.2 bn). However, in 2024, both income receivable (reduction in capital income from abroad from $44.8 bn in 2023 to $35.9 bn in 2024) and income payable (reduction in withdrawal of income and repatriation of profits abroad, including due to restrictions on cross-border capital movements from $81.0 bn in 2023 to $66.9 bn in 2024) have significantly decreased.

The balance of payments financial account, excluding reserve assets, amounted to $47.3 bn in 2024, down by 8.3% compared to 2023 ($51.6 bn). The balance of financial account, excluding reserve assets, in 2024 was shaped under the influence of significant growth of foreign assets of all sectors with a moderate rise in the volume of foreign liabilities.

Growth of foreign assets (excluding reserve assets) in 2024 reached $53.7 bn, which is 22% higher than in 2023 ($44.0 bn). In 2024, growth in foreign assets is mainly due to delays in payments as part of international settlements on Russian exports.[1]

Liabilities of all sectors of the Russian economy to non-residents in 2024 rose by $6.4bn, while in 2023 they fell by $7.5bn. The largest growth of foreign liabilities was observed in Q4 2024 and was mainly due to growth in other investments. This is primarily due to increased timing of export proceeds receipt due to sanctions pressure on the infrastructure of international settlements.

As of January 1, 2025, RF foreign debt amounted to $290.4 bn, having dropped by 8.7% vs. January 1, 2024. Foreign debt of the public administration authorities fell to the greatest extent (by 43% over four quarters of 2024 to $18.8 bn). The share of non-residents in the OFZ market continued to decline from 7.4% on January 1, 2024 to 4% on January 1, 2025, which equals February 2012. Other economic sectors reduced their external liabilities by 7% to $190.4bn, mainly due to a reduction

1. Balance of Payments of the Russian Federation No. 3 (20), Q3 2024.

in their liabilities on attracted credits, including those under direct investment relations. The external debt of banks and the RF Central Bank remained virtually unchanged ($94.4bn on January 1, 2025).

Russia's reserve assets in 2024 fell by $3.8 bn (–$10 bn in 2023). This is mainly due to sales of foreign currency as part of operations with the NWF and "currency swap" operations aimed at smoothing volatility in the foreign exchange market. In 2024, total international reserves[1] of the Central Bank of Russia increased by 1.8% to $609.1 bn. This means that positive revaluation[2] of international reserves in 2024 exceeded their fall due to operations presented in the balance of payments. It is worth noting that share of foreign exchange reserves in total international reserves on January 1, 2025, is 67.9% (74.0% on January 1, 2024), share of monetary gold — 32.1% (26.0% on January 1, 2024).

In 2024, ruble depreciated by 13.9% to 101.7 rubles/dollar, which is due to reduction of the current account balance due to a decline in the value of exports with a slight increase in imports in H2 2024, stronger sanctions against financial sector, which affected the infrastructure of international settlements and terms of receipt of export proceeds, reduction in net sales of foreign currency by major exporters in some months of 2024. During the year, the ruble was supported by maintaining tight monetary policy conditions and the Bank of Russia's option to sell foreign currency as part of the RF Ministry of Finance's operations with the NWF funds.

1.2. Fiscal policy[3]

1.2.1. Characteristics of the budgets of the budget system of the Russian Federation

Basic parameters of the budget system of the Russian Federation

According to the results of the enlarged government budget (EGB) in 2024 relative to 2023, there is an increase in revenues both in nominal (by Rb 11.9 trillion) and in shares of GDP — by 2.0 p. p. GDP and by 10.7% in 2023 prices (*Table 5*). As a share of GDP, aggregate revenues returned to the level of 2020–2021, which preceded the start of SMO.

1. Data on structure of international reserves are not available due to reduction in the volume of statistical information published by the Bank of Russia.
2. Data on the amount of revaluation of international reserves are not available.
3. Authors: *Arlashkin I. Yu.*, Researcher, Budget Policy Studies Department, IAES RANEPA; *Barbashova N.E*, Candidate of Economic Sciences, Senior Researcher, Budget Policy Studies Department, IAES RANEPA; *Sokolov I. A.*, Candidate of Economic Sciences, Head of the Budget Policy Studies Department, IAES RANEPA; *Tishenko T. V.*, Candidate of Economic Sciences, Senior Researcher, Budget Policy Studies Department, IAES RANEPA.