

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

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INFLATION IS SLOWING DOWN, BUT THE RISKS OF PRICE ACCELERATION REMAIN HIGH

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At its meeting on February 13, 2026, the Bank of Russia lowered its key rate by 50 basis points to 15.5% per annum. In January, inflation slowed to 6.0% y/y. The overall consumer price level increased by 1.6% compared to the previous month. Pro-inflationary risks continue to prevail over disinflationary ones. Pro-inflationary risks include: the Russian economy deviating upward from its balanced growth trajectory, heightened inflation expectations, a growing budget deficit, and falling oil prices.

On February 13, 2026, the Bank of Russia decided to lower the key rate by 50 basis points to 15.5% per annum and sent a mild signal, stating that it would assess the advisability of further lowering the key rate depending on the sustainability of the slowdown in inflation and the dynamics of inflation expectations. The results of the Central Bank of Russia meeting came as a surprise to most analysts, who had predicted that the rate would remain at 16% due to inflation rising in January (by 1.62% m/m after 0.32% m/m in December) under the influence of one-off factors: an increase in VAT, unusually strong price increases for fruit and vegetables due to higher heating costs for greenhouse farms, and higher prices for gasoline, tobacco, and alcohol caused by an increase in excise taxes. The Bank of Russia's baseline scenario assumes that tight monetary conditions will be maintained and the average key rate will be in the range of 13.5–14.5% per annum in 2026.

Thus, since June 6, 2025, the Central Bank of the Russian Federation has lowered the rate six times in a row, with the total reduction in the key rate reaching 550 basis points, due to easing inflationary pressures, the strengthening of the ruble, easing of tensions in the labor market, and a slowdown in economic growth amid continued tight monetary conditions, a deterioration in the external environment, and a decline in export opportunities. However, the Russian economy deviated upward from its balanced growth trajectory in Q4 2025 2025 increased slightly as a result of higher consumer demand due to expectations of an increase in VAT and recycling fees. According to our estimates, in Q4 2025, there was a positive output gap of 0.2% (compared to a negative gap of 0.4% in Q3 2025). At the same time, according to Rosstat estimates, economic growth in Russia in 2025 amounted to 1%, which corresponds to the upper limit of the

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Central Bank of Russia's October forecast range. The Bank of Russia left its GDP growth forecast for 2026 unchanged at 0.5–1.5%, expecting subdued growth in domestic demand in the coming months. In particular, short-term expectations for demand and output continued to decline in January, reaching their lowest level since October 2022.

In January 2026, the population's inflation expectations for the coming year remained at 13.7% (the same as a month earlier). Like business expectations, they remain at a high level compared to the values observed in 2017–2019. Businesses' price expectations for the next three months rose to 10.4% on an annualized basis, reaching their highest level since April 2022, due to an increase in the tax burden and regulated tariffs and fees. In December and January, retail lending accelerated due to the announced change in the terms of state-supported preferential mortgage programs (about 80% of the mortgage market) – household mortgage debt in December and January grew by 2.4% (after 1.4% in November). In this regard, and as a result of the shift in price growth from December 2025 to early 2026, the Central Bank of Russia raised its inflation forecast for the end of 2026 from 4–5% to 4.5–5.5%.

Pro-inflationary risks prevail over disinflationary risks in the medium term. Low oil prices amid a surplus of oil supply and sanctions restrictions make a significant weakening of the ruble in 2026 highly likely. According to the Central Bank of Russia's forecasts, the average price of Urals crude oil in 2026 will be only \$45 per barrel, compared to \$55 per barrel in the previous forecast, which increases budget risks.

At the end of 2025, federal budget expenditures grew by 6.8% y/y to Rb42.9 trillion, while oil and gas revenues fell by 23.8% y/y to Rb8.5 trillion. As a result, the federal budget ended up with a deficit of RUB 5.6 trillion (2.6% of GDP), which is Rb2.2 trillion more than in the same period of 2024. At the same time, the non-oil and gas budget balance was -6.5% (compared to -7.3% in 2024). The approved parameters of the 2026 budget imply a strong disinflationary effect, but according to the Bank of Russia's estimates, the growth of the non-oil and gas deficit may create pro-inflationary risks, which in turn will reduce the possibilities for further lowering the key rate.

In January, Rosstat published new weights for goods and services in the consumer basket for 2026, expanding the number of items by 2 to 558 goods and services. Food products have the largest weight in the observed basket for calculating the CPI – 39% (+0.2 p.p.). Non-food goods are in second place in terms of weight in the 2026 consumer basket, at 32.77% (-0.7 p.p.). Services account for 28.23% (+0.5 p.p.). In January, annual inflation over the last 12 months was 6.0% y/y (*Fig. 1*), up 0.4 p.p. from the 5.6% y/y level observed in December. The main contributor to inflation was the rise in prices for services – 2.6 p.p. (despite their smallest weight in the consumer basket). The contribution of food price increases to annual inflation rose by 0.3 p.p. m/m to 2.3 p.p. The smallest contribution to annual inflation came from changes in non-food prices – 1.1 p.p. (up 0.1 p.p. m/m).

In January, the overall consumer price level increased by 1.62% m/m (*Fig. 2*), which was the highest since April 2022. The main impact on monthly inflation (0.42 p.p.) was exerted by an 8.76% m/m increase in fruit and vegetable prices due to lower greenhouse yields, higher production and logistics costs in winter, and stronger demand after the New Year holidays. Among other food products, prices for alcoholic beverages changed significantly (2.96% m/m) as a result of increases in excise taxes, VAT, and minimum retail prices, which led to a 0.13 p.p.

Inflation is slowing down, but the risks of price acceleration remain high

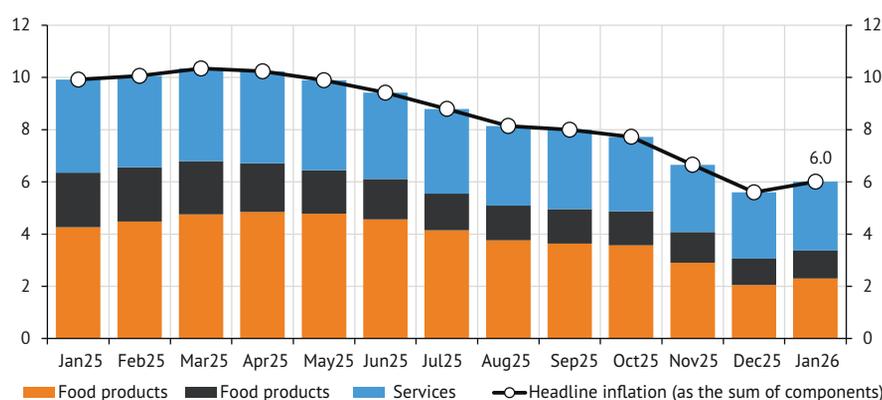


Fig. 1. Contribution of components to consumer inflation over the last 12 months, p.p.

Source: Rosstat.

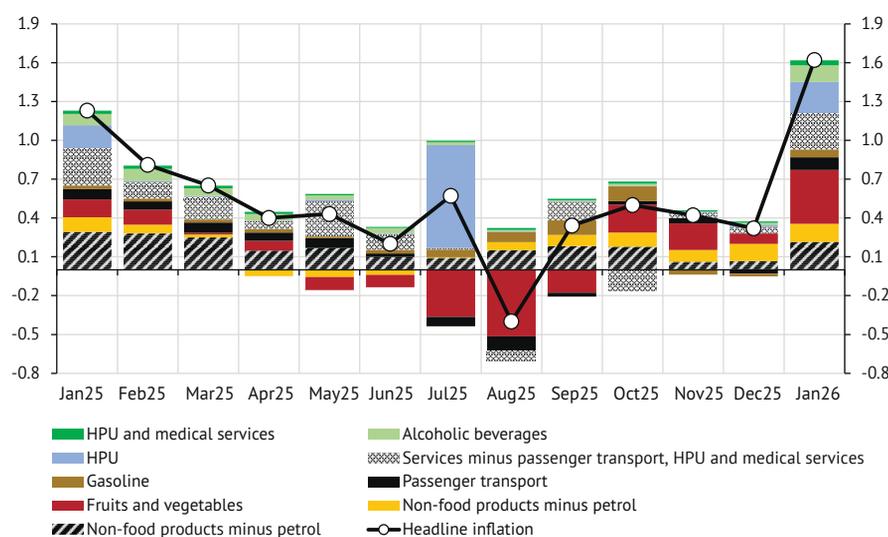


Fig. 2. Contribution of individual components to inflation relative to the previous month, p.p.

Sources: Rosstat, own calculations.

increase in monthly consumer inflation. The cumulative increase in food prices of 1.95% m/m (the highest since December 2024) led to an increase in inflation of 0.76 p.p. (+0.6 p.p. m/m). The contribution of changes in food prices, excluding fruit, vegetables, and alcoholic beverages, to monthly consumer price growth was 0.22 percentage points, up 0.15 percentage points m/m.

The 0.61% m/m increase in non-food prices in January led to a 0.20 p.p. increase in monthly inflation. In particular, after a two-month decline, fuel prices rose by 1.35% m/m in January as a result of an increase in VAT, costs, and indexation of excise taxes, which added 0.06 p.p. to monthly inflation. Excluding gasoline prices, the contribution of non-food inflation to monthly inflation was 0.14 p.p. (+0.01 p.p. m/m).

The contribution of a 2.33% m/m increase in service prices (the highest since July 2025) to the overall price level growth was 0.66 p.p., increasing by 0.62 p.p. m/m as a result of the VAT increase and tariff indexation. The growth in prices for housing and communal services in January reached 2.99%, which added 0.24 p.p. to monthly inflation. Prices for passenger transport services rose by

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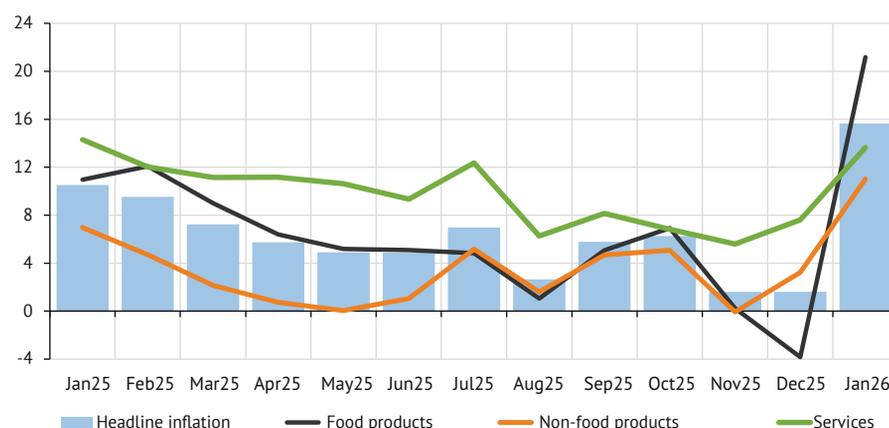


Fig. 3. Dynamic of headline inflation and its main components, % SAAI

Sources: Rosstat, Bank of Russia, own calculations.

4.55% at the beginning of the year, leading to an increase in inflation of 0.1 p.p. Medical services rose in price by 2.34%, contributing 0.04 p.p. to the growth of the overall price level. January also saw a significant increase in prices for foreign tourism services (2.47% m/m), insurance (3.59% m/m) and cultural organizations (3.1% m/m), each of which, given the weight of these categories of services in the consumer basket, led to an increase in the overall price level in January by 0.02 p.p. (the combined contribution was 0.06 p.p.). Excluding prices for passenger transport, medical services, and housing and communal services, the increase in prices for services in January made a positive contribution to monthly inflation and amounted to 0.28 p.p. (in December 2025, 0.05 p.p.).

Seasonally adjusted annual inflation (SAAI) rose to 15.64% in January (Fig. 3), significantly exceeding the level observed in December (1.6%). Seasonally adjusted annual growth in the overall level of food prices increased from -3.8% to 21.2%, and for non-food items from 3.2% to 11.0%. Seasonally adjusted annual inflation in the services segment also increased from 7.6% to 13.6%.

According to our estimates, annual and current inflation will continue to slow down in Q1–Q2 2026, with annual inflation falling to 4.5–4.8%. However, by the end of 2026, inflation will accelerate to 5.9%. The factors determining the future dynamics of annual inflation remain the growth in prices for fruit and vegetable products, the transfer of the VAT increase to the prices of goods and services and, additionally, to the prices of cars due to the increase in the disposal fee, as well as the dynamics of the ruble exchange rate under the influence of unfavorable changes in trade conditions and the decisions of the Central Bank of the Russian Federation on the key rate. Additional inflationary factors remain elevated inflation expectations and a possible further decline in oil prices. Thus, risks remain high, and a rapid easing of monetary policy in 2026 is unlikely to occur. ▲