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RISING INFLATION LIMITS THE SCOPE FOR EASING MONETARY POLICY

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At its meetings on September 11 and October 23, the Bank of Russia left its key rate unchanged at 14.00% per annum. The cycle of monetary policy easing has been suspended. The main factor behind this pause was the acceleration of inflation, which caused the rate of price growth to deviate significantly upward from the Central Bank of the Russian Federation's medium-term forecast; bringing inflation back to target will require maintaining tighter monetary conditions for a longer period.

The cycle of monetary policy easing, which began in June 2025, was put on hold this summer. Following a 250-basis-point rate cut to 14.00% on July 24, 2026, the Bank of Russia left the key rate unchanged on two occasions (at its meetings on September 11 and October 23). This is because disinflationary trends have stalled; therefore, bringing consumer inflation back to the 4% target requires maintaining tighter monetary conditions for a longer period. The 12-month headline consumer inflation rate fell to 5.7% by the end of 2025, after which it remained in the 5.5–6.5% range, showing no downward trend (*Fig. 1*). In September 2026, the 12-month consumer inflation rate stood at 6.3%. Moreover, this figure does not yet reflect the effect of the increase in housing and utility service rates, which were indexed by 12–17% in the first week of October; given the share of utility services in the consumer basket, this will result in an additional increase in the CPI of about 0.8–0.9 percentage points. Overall, inflation accelerated significantly in the second half of 2026. While in the Bank of Russia's medium-term forecast dated February 13, 2026,[1] the regulator had projected that inflation for 2026 would range from 4.5% to 5.5%, the latest version of the medium-term forecast dated October 23, 2026,[2] projects that this figure will reach 7.1–7.6%. Thus, the Bank of Russia expects inflation in 2026 to be higher than in 2025.

1 Bank of Russia Medium-Term Forecast following the February 13, 2026, Board of Directors meeting on the key rate // Bank of Russia. 2026. URL: https://cbr.ru/Content/Document/File/187046/forecast_260213.pdf?ysclid=mvouz6eg3136417949

2 Bank of Russia's Medium-Term Forecast following the Board of Directors' meeting on the key rate on October 23, 2026 // Bank of Russia. 2026. URL: https://cbr.ru/Content/Document/File/198897/forecast_261023.pdf?ysclid=mvov0jt85199880

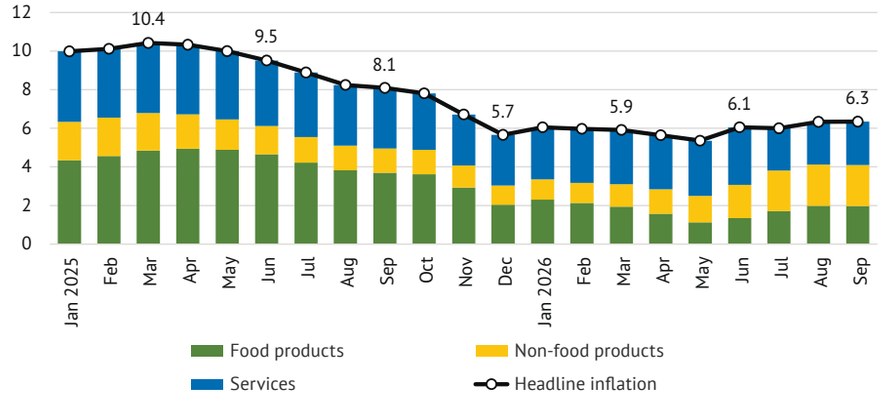


Fig. 1. Component contribution to consumer inflation over the past 12 months, p.p.

Sources: Rosstat, own calculations.

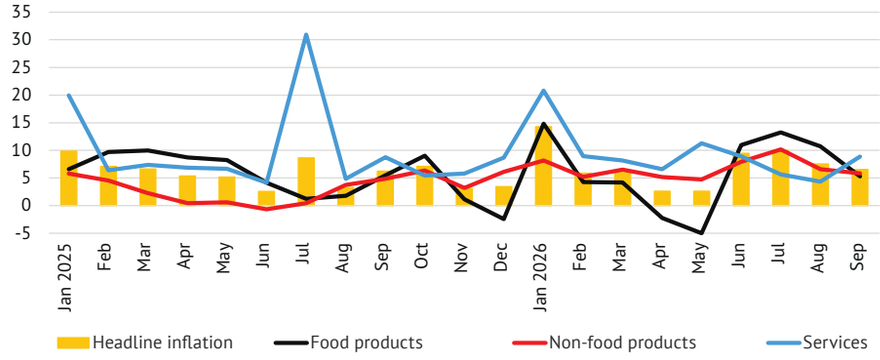


Fig. 2. Trends in headline inflation and its main components, % year-over-year

Sources: Bank of Russia, own calculations.

Seasonally adjusted inflation rates are declining following the rise observed over the summer, although this decline is uneven (*Fig. 2*). Seasonally adjusted year-over-year food price inflation stood at 10.7% in August and 5.3% in September. The same indicator for non-food goods stood at 6.6% in August and 5.8% in September. The corresponding figure for services was 4.3% in August and 8.9% in September. Thus, in recent months, inflation in the services sector has accelerated, while it has slowed in the goods sector.

According to estimates by Russian monetary authorities, the upward deviation of inflation from the forecast is mainly attributable to one-off factors, including temporary losses of production capacity in certain industries due to attacks on them, as well as the indexation of housing and utility rates.[1] The seasonally adjusted core inflation rate stood at 3.5% at the end of September, while alternative core inflation measures stand at around 6% (*Fig. 3*). Thus, no upward shift in inflation is observed in indicators of sustained price dynamics; therefore, the Bank of Russia decided to adopt a wait-and-see stance and not to lower the key rate until a trend toward inflation returning to target emerges.

Among the factors that could lead to a pause in the easing cycle are the feasibility of meeting fiscal policy targets for the coming years, as well as the continued relatively high growth rate of lending. As of September, the 12-month growth rate of broad money supply stood at 12.8 percent, with the expansion of

1 Press Release: The Bank of Russia Decided to Keep the Key Rate at 14.00% Per Annum // Bank of Russia. 2026. URL: https://www.cbr.ru/press/pr/?file=23102026_133000key.htm

Rising inflation limits the scope for easing monetary policy

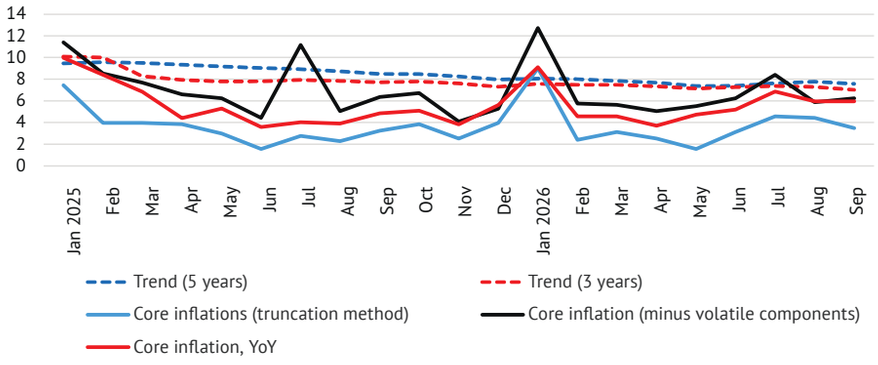


Fig. 3. Measures of sustainable inflation: core inflation (year-over-year), modified core inflation (estimated using the truncation method and the method of excluding volatile components), trend inflation (five-year and three-year moving windows)

Sources: Bank of Russia. [Estimates of trend inflation and modified core inflation indicators // Bank of Russia. URL: https://www.cbr.ru/Content/Document/File/108633/est_infl.xlsx]; own calculations.

lending to nonfinancial sector enterprises serving as the main source of growth in the money supply, although the growth rate of the money supply is gradually slowing.[1] The slowdown in lending growth is also being driven by the tightening of preferential mortgage terms that took place in October. At the same time, there are signs of a continuing economic slowdown. Growth rates for output and investment in 2026 will be lower than expected at the beginning of the year. According to the Central Bank of the Russian Federation's current forecast, GDP growth will not exceed 0.5–1.0%, and investment will decline by 3.0–4.0%, whereas the initial forecast projected an upper limit of 1.5% for output growth and investment growth of 1.0–3.0%. Meanwhile, consumer spending is growing faster than expected.

According to the latest version of the medium-term forecast, the key rate in 2027 will average 12.5–13.5%, indicating that real interest rates will remain high in the coming year and, consequently, monetary conditions will remain tight. Given that the regulator estimates the neutral level of nominal interest rates to be 7.5–8.5%,[2] a transition to neutral monetary policy and the achievement of the inflation target can be expected no earlier than 2028 and only provided there are no new significant inflationary shocks.

1 Bank of Russia. Monetary Conditions and the Transmission of Monetary Policy. Information and Analytical Commentary (September 2026). URL: https://www.cbr.ru/Collection/Collection/File/62436/DKU_2609.pdf

2 Bank of Russia. Main Directions of the Unified State Monetary Policy for 2027 and the Period 2028–2029 (Draft as of September 30, 2026) // URL: https://www.cbr.ru/Content/Document/File/197907/on_2027(2028-2029).pdf