

Summary of the Key Rate Discussion

during the quiet period
and in the course of the meeting
of the Bank of Russia Board of Directors
on 25 July 2025

18 August 2025

Discussants: members of the Bank of Russia Board of Directors, senior executives of the Monetary Policy Department, the Research and Forecasting Department, and other Bank of Russia Departments and Main Branches.

The Monetary Policy Department together with the Research and Forecasting Department presented the results of the analysis of the current economic developments nationwide and worldwide, as well as the suggestions regarding the baseline macroeconomic forecast for 2025–2028 and its variations. The Bank of Russia Main Branches provided information on the situation in the Russian regions, including based on companies' surveys. Furthermore, the participants in the discussion considered the information from the Financial Stability Department and the International Settlements Department.

All opinions of the discussants are based on the data available as of 25 July 2025.

This Summary covers **the key points of the discussion**.



Economic situation and inflation

Main facts

The current price growth rate equalled 4.8% on average (seasonally adjusted annualised rate, SAAR) in 2025 Q2 vs 8.2% SAAR in 2025 Q1 (including –0.1% vs 3.5% for non-food goods; 7.1% vs 9.3% for food products; and 7.6% vs 12.3% for services). Core inflation also decelerated, namely from 8.8% SAAR in 2025 Q1 to an average of 4.5% SAAR in 2025 Q2. Companies' price expectations edged up in July, while households' inflation expectations remained unchanged. According to high-frequency data and surveys, the economy continued to grow at a moderate pace in 2025 Q2 (YoY). In June–July 2025, the Bank of Russia's Business Climate Index went down but stayed positive. In January–May 2025, the overall financial performance of large and medium-sized businesses equalled ₪11.6 trillion, which is 11.2% less year on year. In May 2025, the unemployment rate remained at its all-time low of 2.2% (seasonally adjusted, SA). In April 2025, the growth rates of nominal and real wages were lower than

in 2024 (YoY).

Discussion

In 2025 Q2, inflationary pressures were easing faster than forecast by the Bank of Russia in April 2025. Current price growth approached 4% (SAAR). The decline in inflation was accompanied by a decreasing variance of price growth rates across components and Russian regions. However, their heterogeneity was still higher than in 2017–2019 when inflation was sustainably low. The meeting noted that the persistently elevated heterogeneity of inflation was attributed to the fact that the pace of monetary policy transmission to demand and price dynamics varied across product categories, as well as to one-off and structural factors affecting prices in certain segments.

- Tight monetary policy had a more tangible effect on the dynamics of prices for non-food goods, especially durables. In 2025 Q2, the increase in non-food prices considerably decelerated, while certain categories even experienced a drop in prices. High interest rates discouraged households from buying non-food goods on credit, which decreased demand for them and moderated price growth. The ruble strengthening, largely resulting from tight monetary policy, also contributed to disinflation in the non-food segment.
- The growth of food prices slowed down, while being notably higher than 4%. Inflation in this segment was significantly affected by a decline in fruit and vegetable prices following their higher-than-usual growth in autumn and winter 2024 due to a more modest harvest of 2024.
- Service prices were rising at a lower rate, reflecting slower growth in demand for them under the influence of tight monetary conditions. Nevertheless, service price growth rates remained rather high, which was associated with structural factors, among other things. Namely, these were changing consumer preferences as services started to account for a larger share in the structure of households' consumption amid a considerable rise in incomes.

The participants in the discussion agreed that **to ensure a sustainable return of inflation to the target, current price growth rates should stabilise at a low level during the next quarters.** Due to highly heterogeneous price dynamics across components, as well as divergent opinions regarding the influence of temporary factors, the participants estimated the underlying components of inflationary pressures differently. Some of them assessed underlying inflation as close to or slightly higher than 4%, while others evaluated it at around 6%. The discussants pointed to the need for a further reduction in heterogeneity of price dynamics and for a broader set of underlying inflation measures to converge towards 4%.

In July, current price growth rates will temporarily go up, as compared to June, due to the indexation of housing and utility tariffs by more than 4%. The meeting noted that, although this was a one-off rise, it could still affect households' and businesses' inflation expectations and create second-round effects in price dynamics. Later on, it will be possible to estimate the impact of higher tariffs on prices more accurately.

The participants concurred that **inflation risks associated with harvest remained low.** According to the estimates by experts and the Russian Ministry of Agriculture, this year's harvest of grains and vegetables will be similar to last year's levels. A potential shortfall in the southern regions of Russia, caused by adverse weather conditions, will be offset by larger yields in other regions.

The discussants stated that **a stable downward trend in inflation expectations had not yet formed,** despite the decline in current price growth rates. Breakeven inflation derived from inflation-indexed federal government bonds (OFZ-IN) decreased somewhat. In July 2025, companies' price expectations

edged up, after falling for six consecutive months. Inflation expectations of households and analysts barely changed. Households' and businesses' inflation expectations have likely already been affected by the indexation of housing and utility tariffs as well as by their future indexation by over 4%, announced for the next two years. Considering the changes in all the indicators, the discussants inferred that inflation expectations had remained virtually the same overall since the June key rate meeting. The participants in the discussion underscored that inflation expectations of all economic agents should be lower to ensure a sustainable return of inflation to 4% in 2026.

The released data on GDP by expenditure confirmed the slowdown in the expansion of domestic demand in 2025 Q1, primarily accounted for by a more moderate increase in consumer demand.

According to high-frequency data and the monitoring of businesses, **domestic demand continued to cool in 2025 Q2.**

- **Consumer demand was growing at a modest pace**, while remaining heterogeneous. The cooldown was primarily observed in the segment of non-food goods. Demand for services remained elevated overall, although its growth rates decreased. Specifically, demand for public catering was particularly strong, reflecting a shift in consumers' preferences towards eating out as well as fast development of domestic tourism. Contrastingly, the expansion in demand for other commercial services decelerated in May.
- **Investment activity remained high.** According to the Bank of Russia's survey conducted in July, a significant proportion of companies plan to build up investments in 2025. By using retained earnings more actively, businesses are able to continue investing despite higher borrowing costs. The rise in investment demand is also supported by government-owned projects in priority sectors having access to financing on more favourable terms.

The discussants agreed that **companies' financial position remained stable, while the downward trend in their financial performance compared to the record levels of 2023–2024 was consistent with the cooling in demand and the return of the economy to a balanced growth path.**

- In January–May 2025, companies' overall financial performance was down year on year. This decrease followed very high performance levels of previous years and does not per se indicate any material deterioration in businesses' financial position in the economy. According to the participants, a more comprehensive estimate of the situation requires, among other things, taking into account the ratio of the overall financial performance (over the past 12 months) to GDP. In 2025 Q2, this ratio returned to the levels observed over the period of 2018–2019, characterised by sustainable and balanced growth of the economy. The meeting pointed out that the proportion of profitable companies, albeit having decreased, had remained high, exceeding the 2018–2019 levels. However, in general, the dynamics of this indicator do not necessarily accurately reflect changes in companies' financial performance. Businesses continue to adjust to the new conditions by changing the structure and number of firms within one group or holding company, as well as profit centres. All the above might influence the numbers of profitable and loss-making companies, but does not necessarily reflect the real situation in a particular industry or the economy as a whole.
- The decrease in the overall financial performance was heterogeneous across sectors: it was more notable in mining and quarrying than in manufacturing and trade (excluding car trade). This reflects the structural shifts happening in the economy after the imposition of external sanctions. Namely, these changes included a gradual reorientation from foreign towards domestic demand, an expansion of output in manufacturing, accompanied by its contraction in mining and quarrying, as well as a reduction in export revenues amid foreign trade restrictions.
- The financial performance of highly leveraged companies deteriorated more significantly. That

said, the debt burden of the real economy as a whole remained moderate overall, despite having increased. Most companies still managed to service their loans properly.

According to the participants, **more signs of an easing in the labour market have emerged since the previous meeting**. The monitoring of businesses shows that the proportion of companies experiencing labour shortages shrank. Furthermore, the number of vacancies dropped, whereas that of CVs was on the rise. Employees continued to migrate from enterprises and industries with the decreasing need for workers to those still demonstrating labour demand. The unemployment rate stayed at its all-time low. Most participants in the discussion concurred that, in the current conditions, unemployment was not the only indicator that could fully characterise the situation and changes in the labour market. Companies acknowledge the problem of staff shortages in the economy and seek to retain their employees, fearing difficulties in hiring them in the future. For businesses, the costs of laying off workers, searching for new ones, and training (retraining) them are higher than the costs of retaining employees during a period of lower demand. Therefore, some companies introduce short working weeks and revise their bonus schemes. The unemployment rate is also affected by labour supply factors, such as changes in migration policy and the demographic situation. The labour market may adjust to the slowdown in demand growth primarily through wage dynamics and labour utilisation rates. From the beginning of the year, wage growth rates stayed below the 2024 levels, in both nominal and real terms. Moreover, businesses report more moderate plans to raise wages in 2025 as compared with the previous two years.

The discussants noted that **the planned gradual normalisation of fiscal policy will have a disinflationary effect on aggregate demand and price dynamics this year**. In 2025 H1, federal budget spending was close to the trajectory of 2023–2024, while the structural primary deficit remained. According to the Russian Government, it increased spending in 2025 H1 to distribute expenditures within a calendar year more evenly, as compared to previous years. The participants pointed out that meeting the federal spending parameters announced for 2025 (provided that spending is even throughout the year) will mean considerably lower annual growth rates of both expenditures and the structural primary deficit in 2025 H2.

The meeting inferred that **the upward deviation of the economy from a balanced growth path (a positive output gap) had continued to decrease in 2025 Q2**. This is evidenced by lower inflationary pressures, cooling in domestic demand, signs of a labour market easing, a normalisation of production capacity utilisation, as well as model-based estimates of the output gap. That said, some participants in the discussion stated that the positive output gap might close as early as 2025 Q3 if the current trends continue.

According to the discussants, **considering the current price dynamics and economic developments, inflation will be lower in 2025 than was forecast in April 2025**. Inflation in 2025 is likely to be in the range of 6.0–7.0%.



Monetary conditions

Main facts

Money market rates and OFZ yields went down over the period following the June meeting. Deposit and loan rates mostly dropped as well. Non-price monetary conditions remained tight. The portfolio

of unsecured consumer loans remained virtually unchanged in June, whereas that of mortgages and corporate loans continued growing at a moderate pace (MoM, SA). The inflow of households' funds into ruble deposits and accounts decelerated (MoM, SA). The annual growth rate of broad money, adjusted for foreign currency revaluation, edged up in May–June.

Discussion

The majority of the participants agreed that **monetary conditions had slightly eased overall since the previous key rate meeting, while remaining restrictive.**

Price monetary conditions became less tight in nominal terms. Following the key rate cut in June, nominal rates fell in most segments of the financial market, also affected by the downward revision of the key rate path expected by market participants following the publication of new macroeconomic data.

- OFZ yields were down for all maturities, with the most pronounced decrease observed in the segment of bonds for up to two years. It was argued that the decline in long-term OFZ yields could be attributed to market participants' growing confidence in price stability in the coming years and a corresponding reduction in the inflation premium.
- Deposit rates dropped more notably than loan rates. When monetary policy is eased, deposit rates are usually quicker to respond to a key rate cut, while loan rates go down with a greater time lag.

According to most discussants, **the tightness of price monetary conditions in nominal terms decreased more considerably than in real terms**, taking into account the decline in current price growth rates, certain indicators of inflation expectations, and lower estimates of inflation in 2025 than was forecast in April. That said, some participants attached greater importance to the change in inflation expectations when assessing real interest rates. They assumed that since there had been no marked decline in inflation expectations, the monetary easing in nominal and real terms was comparable.

Tight monetary conditions are still moderating credit activity. The growth rate of the total loan portfolio continued decreasing and was substantially below the average of 2024 H2. Overall, its dynamics were in line with the Bank of Russia's April forecast. However, trends were uneven across lending market segments. The portfolio of unsecured consumer loans continued to contract, whereas mortgages and corporate lending were increasing at a modest pace.

Most participants agreed that **the main reason for the cooling in the credit market was lower demand for loans amid high interest rates.** The influence of a number of autonomous factors (that is, factors not associated with monetary policy) on monetary conditions and lending dynamics weakened (primarily on account of the normalisation of banking regulation after its easing in 2022–2023). Spreads between floating loan rates and the key rate as well as spreads between corporate bond yields and the key rate returned to the levels observed in mid-2024, before their increase.

The meeting pointed to **certain signs of credit portfolio deterioration, which, nevertheless, neither had a material impact on lending capacity nor posed any risks.** As for the corporate segment, most companies still managed to service their loans properly. The cost of credit risk (i.e. the average loan loss provision ratio) for corporate loans rose slightly in 2025 H1 vs 2024 H1, while remaining near the historical averages and well below the peaks of 2022 H1. Compared to corporate lending, the cost of credit risk for retail loans increased more notably, exceeding the historical averages. However, this is not yet a source of concern as these loans are fully covered by loss provisions. The coverage of non-

performing unsecured consumer loans is 90%. The provisioning coverage ratio of mortgages is lower, but they are secured by high-quality collateral. Furthermore, for banks to have an additional capital cushion to be protected in case of unexpected losses, the Bank of Russia raised the countercyclical buffer for banks' capital adequacy ratios to 0.5% of risk-weighted assets from July 2025. Banks continue to accumulate their macroprudential capital buffers.

The discussants highlighted that, **despite lower deposit rates, households' still preferred to save.** Deposit rates considerably exceeded actual and expected inflation, preserving the attractiveness of deposits for savings. The proportion of time deposits in total deposits of households was stably high. According to estimates, the saving ratio also remained at a historically high level, considering the contraction of the unsecured consumer loan portfolio and a slight deceleration in household income growth. Nevertheless, the participants in the discussion agreed that the saving ratio will be going down gradually amid monetary easing. This, however, will not entail a significant flow of current savings into consumption. Savings will continue to expand, albeit at a more modest pace, because the proportion of incomes channelled into consumption will increase.

Despite a slight acceleration, **the growth of broad money remained moderate in May–June, which was associated with subdued growth in credit.** The cumulative growth rate of money supply since the beginning of 2025 was close to its dynamics observed in 2016–2019 when inflation was close to 4%.

Most participants concurred that **monetary conditions were tight enough to bring inflation back to the target in 2026.** Owing to a slower expansion of the loan portfolio, domestic demand will cool down further, the economy will return to a balanced growth path, and inflation will decrease to the target.



External environment

Main facts

According to high-frequency data, global economic growth slowed down somewhat in 2025 Q2 as compared to 2025 Q1. In 2025 Q2, inflationary pressures in the key economies were close to or below the Bank of Russia's estimates. Market participants expected the US Fed to not cut the key rate until September 2025. For the year to date, prices for most Russian exports dropped and were below last year's levels on average. In 2025 Q2, the current account surplus was lower than last year. In June–July, the ruble stabilised against the main currencies, following its significant strengthening over the previous months.

Discussion

The meeting pointed out that, owing to the deferments granted by the US authorities (until 1 August 2025), **the US import tariff hikes had only had a limited effect on global economic growth and inflation so far.** The major impact of the import tariff increases on the economy is likely to manifest itself later and will depend on the terms to be agreed upon by the countries. That said, risks to global economic growth remain high.

The discussants concurred that the Bank of Russia's forecast should factor in a higher US Fed funds rate than predicted in April. Risks of a further acceleration in US inflation persist. They are associated with the expected rise in import tariffs following the deferments and a higher budget deficit over the forecast horizon. Because of the above factors, financial market participants expect the US Fed to cut the key rate more slowly than assumed before.

The participants inferred that **Russian crude prices in 2025 and 2026 will be lower than the April forecast** – at around 55 per barrel on average. They also noted that rapid growth in OPEC+ oil production will increase oil supply in the market and oil stocks. Coupled with declining global demand due to higher import tariffs, this might lead to a market surplus, which will be pushing down oil prices.

The participants in the meeting emphasised that **the share of imports in GDP over the past two quarters had been notably below the averages of the last two years**. They agreed that this was primarily caused by tight monetary policy moderating demand for imports, as well as one-off factors, such as lower demand for foreign-made cars following a surge in their imports prior to the rise in the recycling fee. It was argued that the decreased share of imports in GDP could partially be attributed to structural changes. The toughening of the sanctions at the end of 2024 could make import deliveries more difficult and expensive, thus reducing the attractiveness of imported goods compared to domestic ones in relative prices. Another possible contributor was a further shift in government demand towards domestic goods. As monetary policy is eased, the share of imports in GDP is expected to edge up. The scale of this increase will depend on the degree of the structural factors' influence.

The participants grew more confident that **the ruble appreciation was largely driven by tight monetary policy**. It affected cash flows in both the current and the financial accounts. As regards the current account, tight monetary policy restrained demand for imported goods and, consequently, for foreign currency used to pay for them. As for the financial account, a high interest rate differential made ruble assets more attractive to households and businesses. According to most participants in the discussion, one-off factors, in particular the decline in car imports following the surge in autumn 2024, had a limited impact on the ruble exchange rate.



Inflation risks

The discussants shared the opinion that **the balance of risks to the baseline scenario was shifted towards proinflationary ones**.

The main **proinflationary risks** include:

- A slower decline in the positive output gap (continued economic overheating), which can be the result of both persistently elevated domestic demand and more severe supply-side constraints. High demand may be supported by the resumption of accelerated lending growth. If labour shortages become more acute, this can lead to the growth of real wages outpacing that of labour productivity even more. Tougher sanctions may decelerate the expansion of economic potential. If the economy remains significantly overheated or its overheating decreases more slowly, irrespective of the reasons, this will result in higher underlying inflationary pressures.
- A long period of high inflation expectations or a resumption of their growth, which might directly influence demand and prices as well as strengthen the second-round effects of one-off inflation factors (including higher indexation of housing and utility tariffs).
- Worsening terms of external trade due to deteriorating conditions in global commodity markets and geopolitical developments. A global economic slowdown caused by expanding

protectionist measures and a faster energy transition might lead to lower demand and prices in commodity markets. An accelerated increase in oil production by both OPEC+ and non-OPEC+ countries may put additional pressure on oil prices. As a result, the value of Russian exports might decline.

- A larger budget deficit and the emergence of second-round effects associated with the structure of budget revenues and expenditures. An easing of fiscal policy or an expansion of subsidised lending programmes might lead to persistently high domestic demand and inflation. Furthermore, a significant and persistent downturn in global oil prices may affect budget revenues and require an adjustment of the fiscal policy parameters. If such an adjustment is not made, this can create risks to price dynamics.

The main **disinflationary factors** include:

- A faster and more considerable slowdown in lending, which can result from tighter price and non-price lending conditions, including a decline in banks' risk appetite under the influence of their estimates of economic trends as well as all the decisions taken by the Bank of Russia earlier. An excessive slowdown in lending may lead to a more substantial cooling in domestic demand, a faster deceleration of inflation and its downward deviation from the target.



Conclusions for monetary policy and the key rate decision

The meeting considered the updated forecast estimates – the baseline scenario and its variations. The variations differed in terms of the short-term forecasts of inflation and economic growth, including the pace of the narrowing of the positive output gap.

Based on the analysis of the new data and updated forecast estimates, **the discussants reached a broad consensus on the need to cut the key rate**. While proposals were made to decrease the key rate by 100 bp, 150 bp, and 200 bp, the meeting substantively discussed only 100 bp and 200 bp reductions. The participants considered two signal options: a moderately doveish signal (about assessing the need to reduce the key rate at the upcoming meetings) and a neutral signal (without indicating any direction of future key rate decisions).

The main **arguments in favour of cutting the key rate were as follows**. There is now more compelling evidence of the economy's return to a balanced growth path: labour shortages are diminishing, wages are growing at more modest rates, and the expansion in domestic demand is slowing down. Confidence has strengthened that the ruble appreciation is the result of monetary policy rather than one-off factors. The cooling in demand is easing inflationary pressures, including in terms of underlying components. In June, current price growth rates were close to 4% (SAAR). Given the actual price changes since the beginning of the year and economic developments, inflation in 2025 will be lower than was forecast by the Bank of Russia in April. Monetary tightness is sufficient to bring inflation back to the target of close to 4% in 2026.

The participants supporting a more moderate pace of reduction and a **100 bp key rate cut to 19.00% per annum** attached more importance to the following factors:

- Inflation dynamics remain highly heterogeneous across components and Russian regions. Many measures of underlying inflation exceed 4% (being at a level of around 6%, as estimated

by certain participants).

- A sustained downward trend in inflation expectations has not formed yet. There are risks of their growth and an emergence of second-round effects on inflation from the indexation of housing and utility tariffs in July.

- Although there are signs of an improvement in the labour market, it has not fully normalised so far. The growth of wages is still significantly outpacing that of labour productivity.

- Price monetary conditions have already considerably eased since June. A more cautious step would prevent expectations of a further fast decrease in the key rate. This would ensure the necessary tightness of monetary conditions, while mitigating the risk of economic agents quickly switching from a savings-oriented to a consumption-oriented behaviour model.

- Fiscal policy of 2025 has not yet produced its disinflationary effect in full. In 2025 H1, federal budget spending was close to last year's trajectory, while the structural primary deficit remained. There are risks related to fiscal policy, which requires caution when reducing the key rate.

The participants supporting a **200 bp key rate cut to 18.00% per annum** pointed to the following factors:

- Measures of underlying inflation have dropped substantially since the beginning of 2025, with many of them being close to 4%. Inflation is declining faster than forecast. The heterogeneity of price dynamics across components and Russian regions might stay elevated for some time due to structural changes.

- Inflation expectations demonstrate rather high inertia. They will be decreasing as actual inflation slows further.

- The labour market is easing. Due to a number of factors, the unemployment rate does not necessarily reflect changes in the labour market. The market will be adjusting via mechanisms that do not affect overall unemployment, that is, lower additional bonuses, more moderate wage growth, and reduced working hours.

- Given a faster-than-expected decline in inflationary pressures, a more substantial key rate cut is required for monetary conditions to remain as tight in real terms. A more moderate reduction could increase monetary tightness in real terms, thus creating risks of a more pronounced and rapid cooling in demand and a downward deviation of inflation from 4%.

- According to the Russian Government, higher budget expenditures in 2025 H1 are associated with their more even distribution within the calendar year. It is still possible to expect a reduction in the structural primary deficit in 2025 H2 and a downward effect of the budget on inflation in 2025.

Choosing between a 100 bp and a 200 bp key rate cut, the participants in the discussion assessed the risks of both options. With the more modest decrease, the major risk is related to the tightening of monetary conditions and an excessive cooldown in economic activity, which may lead to a significant and prolonged downward deviation of inflation from 4%. The larger cut involves the risk of an excessive easing of monetary conditions because of expectations of a similarly fast decrease in the key rate at the future meetings, which will pose risks to the deceleration of inflation to 4% in 2026. Most discussants came to the conclusion that, even with the key rate cut by 200 bp, monetary conditions will remain sufficiently tight for inflation to return to the target in 2026.

The meeting discussed two potential policy signals to accompany the key rate decision. Some participants believed that the Bank of Russia could switch to a **moderately dovish signal**. According to their forecast, the key rate is more likely to be decreased at the upcoming meetings, rather than kept at the same level or raised. However, the majority of discussants concurred that it was important

to maintain the neutral signal, as proinflationary risks still prevailed over the forecast horizon. The Bank of Russia might have to make pauses between key rate cuts.

The participants reiterated that for inflation to decline to the target in 2026 and for the economy to return to a balanced growth path, **monetary conditions should remain tight for an extended period**, which should be reflected in the signal as before. They noted that monetary conditions will be sufficiently restrictive even with the key rate reduced, provided that inflation and inflation expectations decrease as well.

Following the discussion, **on 25 July 2025, the Bank of Russia Board of Directors decided to cut the key rate by 200 bp to 18.00% per annum**. The Bank of Russia will maintain monetary conditions as tight as necessary in order to bring inflation back to the target in 2026. In the baseline scenario, this implies that the average key rate will be in the range of 18.8-19.6% per annum in 2025 and 12.0-13.0% per annum in 2026 and monetary policy will remain restrictive for a long period. Further key rate decisions will depend on the sustainability of the decrease in inflation and inflation expectations.

According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will decline to 6.0-7.0% in 2025, return to 4.0% in 2026, and stay at the target further on. GDP will rise by 1.0-2.0% in 2025 and by 0.5-1.5% in 2026. In 2027, the economy will be growing at a balanced rate of 1.5-2.5% per annum. More details are available in the Commentary on the Bank of Russia's Medium-term Forecast.



Please send your comments and suggestions to odkp@cbr.ru.

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