Bank of Russia

26.02.2025

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 14 FEBRUARY 2025

Discussants: members of the Bank of Russia Board of Directors, senior executives of the Monetary Policy Department, the Research and Forecasting Department, and representatives of 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 current economic developments nationwide and worldwide, as well as their suggestions regarding the baseline macroeconomic forecast for 2025–2027 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.

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

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ECONOMIC SITUATION AND INFLATION

MAIN FACTS

Current price growth averaged 12.1% (seasonally adjusted annualised rate, SAAR) in 2024 Q4 vs 11.3% SAAR in 2024 Q3. Underlying measures of inflation were up. On average, core inflation rose to 12.1% SAAR over 2024 Q4 from 7.6% SAAR in 2024 Q3. GDP increased by 4.1% in 2024. The economic growth was driven by high consumer and investment demand. In January–February 2025, the Bank of Russia's Business Climate Index stayed at the level of 2024 Q4 on average. Businesses' price expectations lowered in February 2025 for the first time since 2024 Q1. In December 2024, the unemployment rate stayed at its all-time low of 2.3% (seasonally adjusted). The growth of nominal and real wages accelerated in November 2024. According to surveys, companies are planning to raise wages more moderately in 2025.

DISCUSSION

Inflationary pressures remained high. Inflation increased significantly by the end of 2024. Most measures of underlying inflation exceeded 10%. The participants in the discussion pointed out that high price growth rates at the year end reflected the situation that had developed in the economy in 2024 H2: domestic demand continued to grow rapidly, considerably outpacing the capacities to ramp up the supply of goods and services. The ruble depreciation in November–early December 2024 also contributed to the increase in prices at the end of the year. In early 2025, the indexation of administered prices and tariffs (namely, higher public transportation fares and certain utility rates) greatly contributed to inflation. Nevertheless, recent weekly data indicate that current price growth is slowing down, although remaining high. The discussants agreed that it was premature to talk about the reversal of the inflation trend.

Inflation expectations stayed high. Households' inflation expectations were close to their two-year highs. Analysts raised their inflation forecast for 2025–2026 again, still expecting inflation to be above 4% in 2026. Companies' price expectations remained elevated as well, despite having decreased notably in February 2025 for the first time in 12 months. The meeting noted that **high inflation expectations produced secondary effects in price dynamics**. When inflation expectations are high, households and companies tend to perceive temporary price changes as permanent and change their behaviour accordingly, that is, increase their demand for goods, raw materials, and services. This leads to a self-sustaining inflation cycle and makes the effects of one-off shocks more persistent. The participants in the discussion also highlighted that inflation expectations of households and businesses remained unanchored and were affected by high current inflation. To reduce inflation expectations, a slowdown in price growth is needed. Lower inflation expectations are a prerequisite for a sustained deceleration of inflation.

In 2024, the economic growth rate was higher than assumed in the Bank of Russia's October forecast. This was associated with stronger domestic demand which remained the key driver of the economic growth. Considering a higher assessment of the economic growth rates in 2024 as well as the revision of the annual GDP data for 2022–2023 by Rosstat, the level of output turned out to be slightly higher than the Bank of Russia's October estimates.

Rosstat has not yet updated the quarterly GDP data after publishing the annual data. According to high-frequency data and surveys, **the economic growth could accelerate in 2024 Q4**. The economy was additionally boosted by the increase in budget expenditures during this period. Nevertheless, according to the assessments, the growth in consumer demand decelerated in 2024 Q4 due to a cooldown in retail lending in 2024 H2 coupled with a continuing rise in saving activity. The discussants pointed out that the decline in consumer demand was still slow, hampered by rapidly growing incomes. Investment activity remained high in 2024 Q4. In addition to fiscal stimuli, it was supported by strong financial performance of companies, including the results accumulated over the previous two years. However, there has been a downward trend in financial performance (the 12-month moving average) since the summer of 2024, which will encourage businesses to optimise their investment plans and reduce costs. According to surveys, companies are already decreasing their investment demand and postponing new projects.

The meeting noted that **labour shortages remained the key factor constraining the expansion of supply, although tightness in the labour market had ceased to intensify**. The proportion of enterprises experiencing labour shortages has been declining for several months in a row. The number of job vacancies is decreasing, while the number of CVs is on the rise. Russian regions report lower demand for labour from certain enterprises. Companies are planning to raise wages more moderately in 2025 and are reducing their recruitment plans. The participants in the discussion emphasised that those were only a few signs of incipient labour market normalisation. It was also suggested that the number of vacancies could drop because companies stopped the search as they were unable to find employees. Simultaneously, people who already have a job might continue to post CVs, seeking more favourable working conditions.

The discussants inferred that **the degree of overheating in the economy had not decreased in 2024 Q4**. This was indicated by notably higher inflationary pressures and persistent labour market tightness as well as the model-based estimates of the scale of economic overheating provided by the structural units.

The meeting highlighted that **annual inflation in 2025 would be higher than forecast by the Bank of Russia in October 2024**, given stronger overheating of the economy and a higher inflation rate at the end of 2024 than estimated earlier. Nevertheless, the participants in the discussion still expect **current price growth rates to start going down in the coming months** under the influence of tighter monetary conditions. Normalisation of fiscal policy and the return to fiscal rule-based expenditure budgeting will also become an important disinflationary factor this year.

MONETARY CONDITIONS

MAIN FACTS

Money market rates and OFZ yields declined over the period following the December meeting. Deposit rates edged down, while loan rates stayed high. Non-price lending conditions tightened in 2024 Q4. Credit activity declined in all segments. In December 2024–January 2025, retail lending trended downwards: the consumer loan portfolio shrank and mortgage growth decelerated. The portfolio of corporate loans contracted too. There was a continuous inflow of households' funds into time deposits. Households' saving ratio was up in 2024 Q4.

DISCUSSION

One of the key discussion topics was the assessment of changes in monetary conditions. Price monetary conditions eased in some segments, while remaining tight overall: OFZ yields and deposit rates dropped, whereas lending rates remained unchanged. Non-price monetary conditions tightened as banks increased their requirements for borrowers' financial standing and collateral. Credit activity declined markedly, while saving activity intensified. The meeting concluded that **monetary conditions had tightened overall since the December decision on the key rate**.

The drop in OFZ yields and deposit rates was caused by a number of factors. *Firstly*, market participants revised their expectations regarding the future key rate path downwards after the December decision. *Secondly*, interest rates were affected by a significant inflow of funds into bank accounts owing to the substantial growth of budget expenditures in December 2024–January 2025, the rescheduling of the rollback of the liquidity coverage ratio (LCR) easing, and the expansion of limits on irrevocable credit lines. This weakened banks' competition for deposits, bringing down deposit rates, including for corporate clients. *Finally*, short-term OFZ yields were influenced by low market liquidity and banks' high demand for such bonds caused by the need to comply with the LCR.

Lending conditions were still largely affected not only by tight monetary policy but also by autonomous factors, namely banking regulation normalisation and macroprudential policy tightening. The need to increase balance sheet liquidity and maintain the required capital adequacy, combined with a more conservative assessment of risks related to borrowers, leads to higher premiums included by banks in their interest rates offered to borrowers. The statistics confirmed high-frequency data on the significant rise in unsubsidised interest rates on corporate loans and spreads between floating credit rates and the key rate in December 2024. According to banks' information, the spreads remained elevated in January 2025 as compared to the period before the transition to the active phase of banking regulation normalisation in 2024.

Credit activity continued to decline across all market segments.

- The retail loan portfolio contracted in December 2024–January 2025. The portfolio of unsecured consumer loans shrank under the influence of tight monetary policy and tougher micro- and macroprudential requirements. The mortgage growth remained moderate due to tightened monetary conditions. From mid-2024, this tightening was also driven by the termination of the non-targeted subsidised mortgage programme and the modification of the parameters of other subsidised programmes.

- The corporate loan portfolio decreased in December 2024–January 2025. In addition to tight lending conditions, its dynamics during this period were influenced by budget payments. The end of 2024 saw the growth of budget expenditures, which is usual for this period. In January 2025, their level was above its seasonal norm, which was due to, among other things, the shift in advance payments under government contracts from February to January 2025. Companies that received payments under government contracts used them to repay loans. The portfolio of project finance loans also contracted due to the release of funds from escrow accounts, following the commissioning of large volumes of housing in late 2024. Adjusted for these one-off factors, the cooldown in corporate lending was less pronounced.

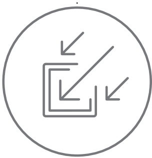
According to recent high-frequency data, the annual growth rates of money supply continued to decline in early 2025. The contribution of the budget to the expansion of money supply increased, whereas that of lending decreased substantially. Since money supply is influenced by both lending and budget expenditures, the slowdown in its growth is an important indicator of the overall change in monetary conditions.

The discussants pointed out that deposit rates remained attractive for savings, despite a slight decline. The inflow of funds into time deposits continued in December 2024–January 2025. Moreover, it sped up in December, which, according to the meeting, was because incentives and bonuses had been partly paid in late 2024 instead of early 2025. Along with the reduction in unsecured consumer lending, this led to **a considerable increase in households' saving ratio at the end of 2024**.

The meeting concurred that **tight monetary policy, banking regulation normalisation, and macroprudential policy tightening would continue to affect credit activity**. Banks have switched to a more rational and conservative use of capital and liquidity. This will constrain the supply of bank loans and continue affecting credit rates and requirements for borrowers. Amid high interest rates, companies' demand for loans will also decline. As a result, lending will continue to cool down and **credit growth rates in 2025–2026 may be expected to be lower than forecast in October 2024**. However, there is still uncertainty regarding the scale of the effect of autonomous factors on lending dynamics.

The participants in the discussion highlighted that considerable budget payments over the past few months had largely distorted lending dynamics. Therefore, more time is required to make sure that these lending trends are sustainable, including after the normalisation of budget spending within the year. To decelerate the expansion of domestic demand and ensure a steady decline in inflation, lending growth rates need to be moderate.

The discussants pointed out that **the quality of the loan portfolio remained high overall, although it had slightly worsened**. The number of restructured loans has been growing both among SMEs and large businesses, albeit not on a large scale. Strong profits allow most companies to service their loans even at higher interest rates. However, highly leveraged companies may face difficulties in debt servicing if high interest rates persist. Therefore, **the situation in the lending market needs to be rigorously monitored, given a considerable volume of loans issued at floating interest rates, among other things**.



EXTERNAL ENVIRONMENT

MAIN FACTS

The growth of the world economy slightly accelerated in late 2024. Inflation risks soared. Market participants expect the path of the US Fed funds rate to be higher than assumed before. According to the preliminary estimate, the current account balance was down in 2024 Q4 both quarter on quarter and year on year. Furthermore, there was a quarter-on-quarter decrease in the value of exports in 2024 Q4, while that of imports remained virtually the same.

DISCUSSION

The expansion of the global economy remains heterogeneous across the world regions. The US economy and a number of large developing economies continued to grow confidently, while the growth in the euro area remained modest. In late 2024, China's economic growth accelerated. Chinese exports expanded substantially, which could be related to larger supplies in anticipation of higher US import duties on Chinese goods.

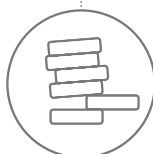
The meeting noted that **market concerns about the global economic growth outlook had increased significantly over the past period**. Trade wars have become more probable, which may have an adverse impact on global economic activity. The uncertainty regarding future developments remains high and depends on the US further steps to increase import duties and response measures of other countries. The participants in the discussion agreed that the baseline scenario should factor in a moderate rise in US import duties. They stated that **higher duties would not cause a slump in global demand** as the adverse consequences would be compensated by more expansionary fiscal policies in the US and China.

However, **higher import duties and larger budget deficits may push up inflation**. Markets are already expecting the US Fed to normalise monetary policy more slowly. The discussants concurred that this should be taken into account in the baseline scenario.

They pointed out that **the expansion of the sanctions in January 2025 could temporarily decrease Russian crude exports and prices**. In addition, oil prices can still be expected to gradually decline over the forecast horizon as the OPEC+ countries increase their production quotas. Risks to oil prices outlined at the previous meeting persist and are related to weaker global demand and an upturn in production outside OPEC+.

The participants discussed the reasons behind a lower current account balance in 2024 Q4. The value of exports went down during this period due to lower oil prices and the restrictions on the increase in export quantities under the OPEC+ agreements. Contrastingly, the value of imports remained nearly unchanged, which was attributed to persistently high domestic demand.

The meeting agreed that **it was yet difficult to assess how steady the ruble appreciation observed over the past few weeks would be and how it would affect prices**. The strengthening of the ruble was associated with both the markets' response to geopolitical events and seasonally lower demand for foreign currency from importers. High-frequency data indicate a slight slowdown in the growth of prices for imports, after the ruble started appreciating in December 2024.



INFLATION RISKS

The discussants concurred that **the balance of risks remained shifted towards proinflationary ones**.

The main **proinflationary risks** include:

- *A persistently large positive output gap (economic overheating)*, which can be the result of both continuously high domestic demand and more severe supply-side constraints. High domestic demand may be supported by the resumption of accelerated lending growth, including due to an increase in the share of credit that is less sensitive to changes in monetary conditions. If labour shortages become more acute, this can lead to labour productivity lagging even more behind the growth of real wages, while intensifying sanctions may have a downward effect on the growth rate of the economy's potential. If the economy remains overheated, irrespective of the reasons, inflationary pressures will stay elevated.

- *A long period of high inflation expectations or their further growth*, which might directly influence demand and prices and strengthen the secondary effects of one-off inflation factors.

- *Worsening of the terms of external trade due to deteriorating conditions in global commodity markets and geopolitical developments*. In particular, a greater slowdown in the growth of the world's largest economies as well as a faster transition to more energy-efficient technologies may entail a reduction in the demand and prices for commodities. In addition, prices for Russian exports might be pushed down by an accelerated increase in non-OPEC+ oil production and a stronger fragmentation of the global economy due to the expansion of protectionist measures and sanctions. As a result, the value of Russian exports may decrease, which, if coupled with persistently high demand for imports in ruble terms, might create risks to the ruble exchange rate and inflation risks.

- *Expansion of the budget deficit and the emergence of secondary effects associated with the structure of budget revenues and expenditures*. Easing of fiscal policy or expansion of subsidised lending programmes might lead to persistently high domestic demand and inflation.

- *Harvest of 2025*. Adverse weather conditions in autumn and the warm winter can negatively affect winter crops and future harvest.

Tighter monetary policy might be required if proinflationary risks materialise.

The main **disinflationary risk** is related to a potentially faster and more considerable slowdown in lending. This may happen due to tighter price and non-price lending conditions, including lower risk appetite of banks under the influence of all the decisions taken by the Bank of Russia, as well as a more notable decline in the demand for loans from borrowers. An excessive slowdown in lending will lead to a more substantial cooldown of domestic demand, a faster inflation deceleration and its downward deviation from the target. However, certain participants noted that they did not believe the risk of inflation deviating downwards from the target to be significant or likely to materialise.

CONCLUSIONS FOR MONETARY POLICY AND THE KEY RATE DECISION

The meeting considered the updated forecast estimates – the baseline scenario and its variations. The differences in the variations related to the short-term forecasts of inflation and economic growth, as well as different estimates of the impact of tighter banking regulation and macroprudential policy on lending dynamics in the coming years.

Based on new information and the updated forecasts, the discussants considered the following two alternatives:

- Keeping the key rate at 21.00% per annum.

- Raising the key rate by 100 bp to 22.00% per annum.

The main arguments in favour of **raising the key rate** were as follows:

- Underlying inflationary pressures intensified in 2024 Q4, while the economic growth rate turned out to be higher than expected. The increase in domestic demand was also stronger than forecast. This means that the overheating of the economy has not diminished and might even have increased. Further monetary policy tightening is required to provide greater confidence that inflation will return to the target in 2026.

- Credit activity is declining, but its dynamics are distorted by a number of factors, namely high budget expenditures and seasonally low demand for loans at the beginning of the year. In addition, the impact of autonomous factors on lending dynamics may be less significant than projected. As a result, the slowdown in lending might be unsustainable, and credit growth might accelerate again after a drop in budget payments. This will create additional inflation risks.

- Inflation expectations remain high, pushing down real interest rates and increasing inertia in price dynamics. This involves the risk that the economy might experience persistently high inflation which will decline only if economic activity cools down significantly.

The main arguments in favour of **keeping the key rate unchanged** were as follows:

- Although inflation remains high, an environment conducive to its future reduction is emerging. Specifically, credit activity is cooling down, the growth of consumer demand has somewhat slowed, and there are signs of incipient labour market normalisation. Monetary conditions have become sufficiently restrictive to decelerate lending and demand further and bring inflation down to the target in 2026.

- The autonomous factors still have a substantial impact on credit, which will intensify the slowdown in lending. However, the simultaneous tightening of monetary policy and banking regulation may have a non-linear impact on credit dynamics. This means that, when banking regulation is also tightened, the disinflationary effects of restrictive monetary policy may be more pronounced. The pause should be continued for the Bank of Russia to analyse further changes in monetary conditions.

- The situation in the economy has remained nearly the same since the December meeting. More active savings and weakening credit activity have been accompanied by stronger proinflationary trends in the economy. In this context, the decision to keep the key rate unchanged is consistent and in line with the reasoning behind the decision made at the previous meeting.

Having considered all pros and cons, the meeting agreed that raising the key rate still carried greater risks than keeping it unchanged (for details on the reasoning, see the Summary of the Key Rate Discussion in December 2024). Therefore, the pause in February 2025 is a more balanced decision. Keeping the key

rate unchanged will make it possible to additionally assess the adjustment of monetary conditions (including trends in lending) and their impact on inflation, while minimising the risk of an excessive cooldown in economic activity and a downward deviation of inflation from the target in the future.

The meeting discussed **the signal that should complement the decision** on the key rate. Some participants suggested a neutral signal indicating a longer period of maintaining tight monetary conditions. They noted that the reversal point of proinflationary trends could be close, but both proinflationary and disinflationary risks persisted. With a neutral signal, the Bank of Russia would have sufficient flexibility in making further decisions. Nevertheless, most discussants decided that proinflationary risks prevailed. The dynamics of inflation and inflation expectations are a source of concern. Therefore, it is necessary to repeat the message that the Bank of Russia will assess the need for a key rate increase at its upcoming meeting.

Following the discussion, **on 14 February 2025, the Bank of Russia Board of Directors made the decision to keep the key rate at 21.00% per annum and signalled that it would assess the need for a key rate increase at the next meeting taking into account the pace and sustainability of inflation deceleration**.

Considering the persistent overheating in the economy and higher price growth rates in late 2024 as well as the inertia of high inflation, tight monetary conditions should be maintained for a longer period than estimated in October 2024 in order to bring inflation down to the target. The key rate path for 2025–2026 has been raised. The average key rate will equal 19.0–22.0% per annum in 2025 and 13.0–14.0% per annum in 2026. In 2027, it will be within the neutral range of 7.5–8.5% per annum.

In the Bank of Russia's baseline scenario, the economic overheating is expected to gradually decline under the influence of the monetary policy pursued. Since the economic growth will start slowing down from a higher level, its forecast for 2025 has been raised by 0.5 pp to 1.0–2.0%. The forecast for 2026 has been lowered by 0.5 pp to 0.5–1.5% to take into account a longer period of maintaining tight monetary conditions. In 2027, the economy will return to balanced growth rates that are still estimated at 1.5–2.5%. Inflation will be gradually decelerating in 2025–2026. The inflation forecast for 2025 has been raised by 2.5–3.0 pp to 7.0–8.0% due to higher actual inflation in late 2024–early 2025 than forecast in October 2024. Given the monetary policy stance, annual inflation will decrease to 4.0% in 2026 and stay at the target further on. More details on the forecast are available in the Commentary on the Bank of Russia's Medium-term Forecast.