Bank of Russia

02.04.2025

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 21 MARCH 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 the current economic developments nationwide and worldwide as well as the comparisons of the unfolding economic trends against the Bank of Russia's February 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.**

CONTENTS

ECONOMIC SITUATION AND INFLATION

MAIN FACTS

Current price growth averaged 9.1% (seasonally adjusted annualised rate, SAAR) in January–February 2025 vs 12.0% SAAR in 2024 Q4. On average, core inflation decelerated from 12.1% SAAR in 2024 Q4 to 10.2% SAAR over January–February 2025. According to high-frequency data and surveys, the growth in domestic demand slowed in early 2025 QoQ (seasonally adjusted, SA). In 2025 Q1, the Bank of Russia's Business Climate Index on average remained at the level of 2024 Q4. Businesses' price expectations and households' inflation expectations lowered in March. In January, the unemployment rate stayed at its all-time low of 2.3% SA. The growth of nominal and real wages accelerated in December 2024.

DISCUSSION

Current inflationary pressures eased, while remaining high. The discussants agreed that domestic demand and a stronger ruble had been the main factors influencing price growth from the beginning of the year. They noted that the dynamics of inflation were markedly different across its components.

- The rise in non-food prices slowed down considerably, which was associated not only with the ruble exchange rate (to which they are more sensitive than the overall consumer price index), but also with a cooldown in demand. Consumer lending has a greater impact on purchases of non-food goods than on purchases of food or services. This means that tight monetary conditions affect non-food prices faster and more strongly.

- Prices for market services continued to rise rapidly as demand in this segment had significantly increased in recent years, fuelled by growing household incomes, and stayed high. In addition, prices for services largely depend on wage dynamics. The labour market remained tight as the competition for employees was pushing up labour costs, which companies continued to pass through into prices amid high demand. Monetary policy will presumably produce its effects later as demand and supply become more balanced.

- The growth rates of food prices remained elevated, driven by poorer harvest in 2024, both nationwide and worldwide, as compared to 2023. However, fruit and vegetables have become cheaper overall since early 2025 (MoM SA), including due to a stronger ruble.

The meeting discussed what had had a greater impact on inflation – the more moderate expansion of demand or the ruble appreciation. Some of the participants in the discussion believed that the exchange rate dynamics were the main contributor, whereas others said it was the cooldown in demand. The meeting noted that, although the impact of monetary policy on the exchange rate had become weaker since 2022 because of capital controls, this channel of the transmission mechanism was still working. The ruble could appreciate as a result of growing interest in Russian assets against the backdrop of the improving geopolitical environment. This interest could be aroused by Russia's key rate being higher than other countries' policy rates. That is, the decline in the current price growth rates, facilitated by the ruble appreciation, could in part have been amplified by the monetary policy pursued. However, there are no accurate data to confirm this. The participants' opinion about how much the interest rate differential contributed to the ruble appreciation and inflation was divided.

The discussants inferred that current inflationary pressures had eased due to both the factors that were definitely sustained (a gradual decline in the growth rate of demand) and the factors that were yet uncertain (expectations of improvements in the geopolitical environment). **More time is needed to assess how sustainable the inflation deceleration is and how fast disinflation will be in the future.**

Inflation expectations were mainly decreasing. The expectations of households dropped to the September 2024 values, while those of companies fell to the level observed in the spring of 2024. Breakeven inflation for inflation-indexed federal government bonds (OFZ-IN) was also down. Inflation expectations were influenced by a stronger ruble, among other factors. The meeting pointed out that despite the decline, inflation expectations of households and businesses were considerably above the 2017–2019 levels when inflation was close to 4%. The discussants concurred that **elevated inflation expectations of households and businesses were increasing the inertia of the inflation rate.** Analysts slightly raised their 2026 inflation forecast to 4.8%, expecting inflation to return to 4.0% in 2027.

High-frequency data and surveys show that **the economy was growing at a more moderate pace in 2025 Q1 than in late 2024.** The participants in the discussion stated that the growth in economic activity had been slowing down after its notable acceleration at the end of 2024, which is why it would be premature to talk about a transition to sustainable and balanced growth of the economy.

The expansion of domestic demand is decelerating, although it remains the major driver of economic growth. Demand is supported by high household incomes and budget expenditures.

- Most measures of investment demand indicate a decline in its growth rate in early 2025. According to surveys, companies continue to optimise their investment plans, focusing on projects that are near completion. Businesses report that substantial growth in prices for materials and equipment is an important factor restricting the increase in investments. Companies predominantly finance investment projects from equity. Although their financial performance is worsening, it still remains strong by historical standards. Many enterprises have capital cushions accumulated over the previous two years and use them to scale up business. As a result, investment activity growth is slowing more smoothly this year.

- Consumer demand continues to rise at an elevated rate, bolstered by bonuses that were partly paid in late 2024 instead of 2025 Q1 due to tax changes. Nevertheless, certain sectors observe signs of a cooldown in consumer demand. Specifically, the sales of cars and electronic devices are dropping, while the stocks of these goods are building up. Representatives of Bank of Russia regional branches report lowering consumer demand in the non-food segment and public catering in the Russian regions. The discussants agreed that more information was needed to make a conclusion on whether the downward trend in consumer activity was stable.

The labour market remains tight, although showing increasingly more signs of a gradual easing. The unemployment rate is still at its historical low, but its level is stabilising. The proportion of enterprises experiencing labour shortages continues to contract, with a larger number of respondents reporting lower demand for labour. The number of job vacancies is decreasing, while the number of CVs is on the rise. So far, it is unclear how much of an impact these changes will have on wages as the related statistics are published with a significant time lag. The latest available data (for December 2024) indicate a considerable acceleration in the growth of wages, largely driven by bonuses and incentives partially paid at the end of 2024 instead of 2025 Q1. Adjusted for this factor, the growth rates of wages were more modest. In early 2025, representatives of Bank of Russia regional branches reported a more moderate increase in wages offered in new job postings, with candidates becoming more willing to compromise on the matter. According to the meeting, it will only be possible to assess wage dynamics more accurately after the release of the data for April 2025 when the effects of the bonus payments have worn off.

The participants in the discussion inferred that **the positive output gap in the economy had probably started to narrow in 2025 Q1,** as evidenced by a decline in current inflationary pressures, slower growth in domestic demand, and emerging signs of an easing in the labour market. However, **it is premature to say whether the reduction in the degree of economic overheating is sustainable and fast enough for inflation to return to the target in 2026.** The positive output gap in the economy remains substantial.

In January–February 2025, budget expenditures were higher year on year, which was attributed to the shift in advance payments under government contracts to this period. Certain discussants expressed their concern over future budget expenditures and revenues, considering current price trends in commodity markets, among other factors. Nevertheless, many participants noted that the budget would be executed with a zero structural primary deficit in 2025, despite accelerated budget spending at the beginning of the year. All discussants reiterated that **the normalisation of fiscal policy in line with the approved parameters of the federal budget was to become an important disinflationary factor this year.**

MONETARY CONDITIONS

MAIN FACTS

Money market rates and OFZ yields declined over the period following the February meeting. Deposit rates went down, whereas loan rates barely changed. According to high-frequency data, retail lending contracted overall in February (MoM SA): the portfolio of consumer loans continued to decrease, while that of mortgages edged up. The corporate loan portfolio remained virtually unchanged (MoM SA). Households continued to deposit funds in current accounts and open time deposits.

DISCUSSION

Indicators of monetary tightness were changing diversely during the period since the February meeting. Therefore, the discussion revolved around the overall estimate of the change in monetary tightness. Price conditions eased owing to dropping interest rates and yields in many segments of the financial market, but remained tight. Their easing was less significant in real terms than in nominal terms due to lower inflation expectations. Non-price monetary conditions did not change and were still tight. Sustainably high saving activity and a contraction in lending could be considered the resulting indicators of monetary tightness. However, the dynamics of credit activity were noisy. As a result of considerable budget payments, companies lowered their demand for new loans and were probably partially repaying the loans taken out earlier. Some discussants opined that monetary conditions had slightly eased overall, although most participants disagreed. More time and data are needed to draw a firm conclusion on lending trends. **Despite the divided opinion on the change in monetary conditions, all discussants concurred that they generally remained tight enough to ensure the disinflation process.**

The reassessment of geopolitical risks by market participants significantly affected price monetary conditions. Market expectations regarding the future key rate path adjusted downwards. Money market rates and OFZ yields went down. The OFZ yield curve became less inverted. The downward adjustment of key rate expectations pushed down deposit rates. The latter were also influenced by the factors highlighted by the participants during the previous key rate discussions. In particular, these included improvements in banks' compliance with the liquidity coverage ratio (LCR) owing to a considerable inflow of budget funds over December 2024–February 2025 and the narrowing deficit of highly liquid assets as a result of large OFZ offerings during this period. Deposit rates were also affected by the Bank of Russia's decisions to adjust the schedule of the LCR easing rollback and expand the limits on irrevocable credit lines.

Although nominal deposit rates decreased, they remained attractive, considering that the decline was not that significant in real terms due to lower inflation expectations. The inflow of funds into time deposits and current accounts remained high in February.

The meeting pointed out that **dropping OFZ yields and money market rates had not resulted in a notable change in loan rates. One of the reasons was that lending conditions were still affected by autonomous factors**, namely banking regulation normalisation and macroprudential policy tightening. Elevated spreads between floating loan rates and the key rate did not narrow, reflecting, among other things, that a higher credit risk premium was still factored into loan rates. According to some discussants, the impact of the autonomous factors could somewhat weaken, which was indicated by a downturn in corporate bond yields. Consequently, credit spreads and loan rates can be expected to edge down in the future. Nevertheless, most participants in the discussion agreed that **the autonomous factors and more conservative risk assessment policies of banks would continue to have a considerable impact on lending conditions**. Banks still need to increase their balance sheet liquidity and maintain the required capital adequacy.

Lending growth rates were close to the lower bound of the February forecast.

- The retail loan portfolio continued to contract in February, mainly on account of unsecured consumer loans. Their volume was down amid high interest rates and tighter macroprudential requirements.
- The mortgage segment growth was moderate, following the termination of the non-targeted subsidised mortgage programme and the modification of the parameters of other subsidised programmes.
- The corporate loan portfolio remained almost unchanged in February, after declining over the previous two months. Even adjusted for the impact of elevated budget expenditures, the growth rates of corporate lending were more modest as compared to February 2024. A cooldown in demand from businesses was a significant contributor to the slowdown in the corporate lending expansion, as evidenced by companies' surveys in the Russian regions, among other things. The number of indebted businesses has been going down over recent months.

The meeting concurred that **tight monetary policy as well as the autonomous factors would continue to affect credit activity.** Nevertheless, more time is still needed to make sure that the trends observed in lending are sustainable. To decelerate the expansion of domestic demand and ensure a steady decline in inflation, lending growth rates need to be moderate.

The discussants stated that the increase in money supply was decelerating less notably than that in lending because of high budget expenditures. The money supply trend observed since the beginning of 2025 is similar to the dynamics recorded last year. In the following months, as budget spending decelerates and the demand for loans moderates, the slowdown in money supply growth should become more pronounced than in the first months of 2025.

The meeting noted that **the quality of the loan portfolio remained rather high overall, although certain segments experienced a slight deterioration**. Most companies still manage to properly service their loans, including due to high profits earned in the past few years. However, highly leveraged businesses may face difficulties in debt servicing if high interest rates persist. In the SME segment (mostly among microenterprises), the volume of restructured loans and the number of defaults are still edging up. Overall, the number of loan restructuring applications remains moderate.

EXTERNAL ENVIRONMENT

MAIN FACTS

The growth of the world economy was stable in early 2025. However, the risks of its slowdown coupled with accelerating inflation increased. The Bank of Russia revised the current account balance for 2024 Q4 considerably upwards as compared to the preliminary estimate: the surplus rose significantly against 2024 Q3 and was higher than in 2023 Q4. In January–February 2025, the current account surplus was above the previous year's figures, with the value of exports being close to last year's levels and that of imports going down. The ruble strengthened notably against the main currencies over the period since the beginning of 2025.

DISCUSSION

The participants pointed out that the rise in the US import duties and the retaliatory measures of other countries had increased the risks of a slowdown in global economic growth and an acceleration of inflation. The expectations of lower global demand are already exerting pressure on prices in commodity markets. The risks of oil prices being lower in the next few years than assumed in the February baseline forecast have become slightly higher.

The discussants pointed to the fact that the volume of exports remained stable at the beginning of the year, whereas imports contracted, even adjusted for seasonal factors. They conferred about the reasons for the decrease in imports amid a considerable ruble appreciation. According to some participants, the drop in imports was mainly caused by the temporary adjustment of the demand for foreign cars, following its surge in August–October 2024 before the rise in the recycling fee. It was also suggested that, given significantly longer delivery periods, weak imports in early 2025 could have been the result of a reduction in orders made at the end of 2024 when the ruble had depreciated. While acknowledging the impact of these factors, most discussants, however, concluded that **the decline in imports was largely associated with the expectations of more moderate growth in domestic demand, including the demand for imports, due to tight monetary conditions.**

The ruble appreciation was attributed to both a stronger balance of trade at the beginning of the year and market participants' expectations of a possible improvement in the geopolitical environment. The discussants agreed that **the ruble appreciation could not be regarded as a sustainable disinflationary factor yet.**

INFLATION RISKS

The meeting noted that certain proinflationary risks had intensified over the period after the previous meeting, with new disinflationary factors emerging. The participants concurred that **the balance of risks to the baseline scenario had barely changed and 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 elevated domestic demand and more severe supply-side constraints. High demand may be supported by a resumption of accelerated lending growth, including due to an increase in the share of loans that are 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, high inflationary pressures will persist.

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

- *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 increase in non-OPEC+ oil production may put additional pressure on oil prices. As a result, the value of Russian exports might decline.

- *A larger budget deficit and an 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, drops in oil prices caused by slower growth in global demand and a stronger ruble may create risks to budget revenues. This might impede the implementation of the plan to achieve a zero structural primary deficit in 2025.

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 lower risk appetite of banks 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 cooldown of domestic demand, a faster inflation deceleration and its downward deviation from the target.

- *A de-escalation of geopolitical tensions*. In the short term, this can contribute to disinflation. However, in the medium term, its impact might be more ambiguous, depending on the balance of demand and supply in the economy.

CONCLUSIONS FOR MONETARY POLICY AND THE KEY RATE DECISION

Based on the analysis of the new data and their comparison with the Bank of Russia's February forecast, the discussants reached **a broad consensus on the need to keep the key rate unchanged at the March meeting.** The main arguments were as follows:

- Current inflationary pressures are gradually easing, while staying high. Economic growth is decelerating. Credit activity is cooling down, while households' propensity to save remains high. There are signs of an easing in the labour market. The current degree of monetary tightness is most likely sufficient for the economy's overheating to continue decreasing steadily, ensuring that inflation decelerates further and returns to the target in 2026.

- However, more time and data are needed to make sure the above trends are sustainable. In early 2025, many economic indicators, namely the dynamics of lending, consumer demand and wages, were noisy. Moreover, the easing of current inflationary pressures was in part associated with the ruble appreciation. It is so far impossible to say how consistent this exchange rate trend will be.

All discussants agreed that **the Bank of Russia should act in a manner that ensures the return of inflation to the target in 2026 in any scenario**. This is why, when making monetary policy decisions, the Bank of Russia relies on sustainable trends in the economy as well as long-term factors and sticks to a conservative approach to assessing the balance of inflation risks over the forecast horizon. Since a premature easing of monetary policy might provoke high proinflationary risks, the Bank of Russia should rely on the most conservative scenario, including with regard to the external environment, when deciding on the key rate path. The Bank of Russia's February baseline forecast remains relevant and suggests that monetary conditions should remain tight for a long period to achieve the inflation target.

The issue that caused the most controversy was the signal that should be given for the upcoming meetings. The participants discussed two alternatives:

- A neutral signal without indicating the direction of steps to be taken at the future meetings.
- A moderately tight signal indicating a possible key rate increase at the upcoming meetings.

The discussants **supporting the neutral signal** said that the current degree of monetary tightness was sufficient for inflation to decelerate at the desired pace. Therefore, the neutral signal, which assumes equal probabilities of raising the key rate, keeping it unchanged or cutting it, was more in tune with their opinion. This signal would also ensure the required flexibility in decision-making, considering the uncertainty regarding future developments, both internal and external.

The participants **supporting the moderately tight signal** pointed to the uncertainty about the sustainability and pace of disinflation. The balance of inflation risks is still shifted towards proinflationary ones. Other sources of concern are consumer demand dynamics and substantial budget expenditures at the beginning of the year.

Most discussants concurred that, although a key rate increase had become less likely, they should give a signal of its probability. They also stated that standard forms of a moderately tight signal lacked clarity about the conditions under which the key rate could be raised. Therefore, it was necessary to accompany the signal by an explanation that an increase is possible if the pace of disinflation is insufficient to achieve the inflation target in 2026.

Following the discussion, **on 21 March 2025, the Bank of Russia Board of Directors decided to keep the key rate at 21.00% per annum.** According to the Bank of Russia's estimates, the achieved monetary tightness creates prerequisites for the return of inflation to the target in 2026. To achieve the inflation target, it is necessary to maintain tight monetary conditions in the economy for a long period. The Bank of Russia will continue analysing the pace and sustainability of the decline in inflation and inflation expectations. If disinflation is insufficient to achieve the inflation target, the regulator will consider raising the key rate.