

Analysts Raise Inflation Forecasts Due to Russian Budget

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A man looks at the price of bread in a store in Novosibirsk. **Kirill Kukhmar / TASS**

Analysts at Renaissance Capital revised their inflation forecast by 1 to 2 percentage points for Russia, now anticipating inflation of 5.4% at end-2025, with a moderately “hard landing” of the overheated economy in 2025 (GDP growth of 1.5%) and the key interest rate increased to as much as 21% by the end of 2024.

According to bne IntelliNews, this is due to the [pro-inflationary nature](#) of the most recently proposed draft federal budget for 2025–2027.

“The scale of the fiscal stimulus in 2024, according to the new draft budget, remains extremely high. The draft envisages a return to setting expenditure under the ‘budget rule’ from 2025. Nevertheless, risks to inflation from the budget in 2025 remain, including through the 2022–2024 fiscal stimulus plume, the use of rising tax revenues to support current consumption and possible increases in spending plans during the year,” Renaissance Capital analysts warn.

One of the strongest pro-inflationary factors is a 12% rise in housing and utility tariffs, double what was originally planned, which could add 0.5 percentage points to inflation in 2025.

“More worrying, in our view, is the probable continuation of the practice of indexing tariffs by an amount significantly higher than the inflation target in the future,” RenCap wrote.

The analysts continue to maintain our position that the Russian Central Bank will move to lower the key rate in 2025, but as the economy continues to transform, the end of the rate hike cycle is harder to predict.

“The main internal risks to the outlook are related to the speed at which the fiscal stimulus is fading, while external risks are related to the dynamics of oil prices, where the picture changes for the markedly worse at oil prices of \$50/barrel and below,” the analysts note.

Finally, RenCap sees a significant risk of changes in the exchange rate under the influence of non-market factors.

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