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 19 DECEMBER 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 comparisons of the unfolding economic trends against the Bank of Russia's October 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 business surveys. Furthermore, the participants in the discussion considered the information from the Financial Stability Department and the International Settlements Department.

The discussants' opinions are based on the data available as of 19 December 2025.

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

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ECONOMIC SITUATION AND INFLATION

MAIN FACTS

In October–November 2025, current price growth declined to 4.6% (seasonally adjusted annualised rate, SAAR) on average from 6.6% SAAR in 2025 Q3. Core inflation averaged 4.3% SAAR over the same period vs 4.1% SAAR in 2025 Q3. Businesses' price expectations and households' inflation expectations were up in November–December. Analysts' inflation forecasts for 2026–2027 remained virtually unchanged. According to high-frequency data, economic growth accelerated quarter on quarter (seasonally adjusted, SA) in 2025 Q4. The Bank of Russia's Business Climate Index was on average higher in 2025 Q4 than in 2025 Q3. In October 2025, the unemployment rate edged up to 2.2% SA. The growth rates of nominal and real wages increased year on year in September 2025, following their decline in August 2025.

DISCUSSION

In recent months, current price growth rates have been highly volatile, with the acceleration in October followed by a considerable slowdown in November. This was mainly associated with changes in prices for certain volatile groups of goods. While in October, the rise in inflation was largely driven by higher prices for petroleum products as well as fruit and vegetables, in November, the trends in prices for these goods reversed. In November, fruit and vegetable prices were growing more slowly compared to the seasonal norm. During this period, prices for petroleum products were declining due to a seasonal weakening in demand after the summer increase as well as to the measures taken by the Government of the Russian Federation to boost supply in the domestic market. The participants concurred that, considering the actual price dynamics in 2025 Q4, annual inflation for 2025 will come in below 6% at year end, which is lower than the Bank of Russia's October forecast of 6.5–7.0%.

Measures of underlying inflation have also been fluctuating significantly in recent months. They went up in October, while remaining within the 4–6% range, and approached 4% in November. Almost all participants agreed that a single month's data were insufficient to conclude that a trend towards a further easing of inflationary pressures in terms of underlying components had emerged. On average for October–November, the current growth rates of most underlying inflation measures were above 4%. Furthermore, these rates are expected to go up temporarily in the coming months due to the materialisation of proinflationary factors (i.e. the VAT rise as well as the increase in utility tariffs and other administered prices). Some discussants noted that the growth rates of prices for unregulated (commercial) services remained near the upper bound of the 4–6% range, which might indicate persistently elevated inflationary pressures. Others, by contrast, assessed the underlying price growth more optimistically, attaching greater significance to the November data and pointing out that inflationary pressures in terms of underlying components had approached 4%.

The participants in the discussion agreed that **tight monetary policy continued to curb price growth, including through the exchange rate channel**. That said, the effect of the year-to-date ruble appreciation on prices had already largely materialised.

The meeting discussed low weekly inflation figures in December. It was noted that high-frequency data still showed a substantial contribution of volatile components to the slowdown in price growth. An opinion was also voiced that the lower inflation rate in early December could be attributed to sellers not raising prices or even temporarily cutting them in an effort to reduce their inventories ahead of the VAT increase. While the scale of this factor's impact is difficult to assess, if significant, it could exert an opposite (upward) pressure on prices at the beginning of 2026. The participants concurred that, in any case, they should not rely on weekly data in decision making. The sample of goods and services for weekly price monitoring is considerably smaller than that for monthly monitoring, which often leads to biased estimates based on such data. The situation may change in the second half of December as some companies might start adjusting their prices upwards, factoring in the upcoming VAT rise in advance.

According to the discussants, **next year, the impact of one-off proinflationary factors may be greater than previously estimated**. This is associated with the updated indexation parameters, i.e. the additional indexation of housing and utility tariffs in January as well as the adjustment of certain parameters of the increase in excise duties, other fees, administered tariffs and prices. The ultimate impact of these factors on prices will depend on the response of inflation expectations and the ability of companies to pass higher costs on to the end consumer. The scale of such pass-through might be greater in the event of a continued growth in inflation expectations and persistently overheated demand.

Over the past period, **inflation expectations generally increased**. A considerable rise was observed in businesses' price expectations, while households' inflation expectations went up less notably. Analysts' inflation estimates for 2026 did not change, remaining slightly above the Bank of Russia's forecast. Breakeven inflation derived from federal government bonds (OFZ) edged down. The participants in the discussion pointed to inflation expectations staying significantly above the levels observed during the periods when inflation was close to 4%. Their persistently elevated levels could hamper the return of inflation to the target.

According to the estimates based on high-frequency data, sequential **economic growth accelerated in 2025 Q4**. However, the situation still varied across industries. Output contracted in certain sectors but increased in many others, including in mining and quarrying where it had previously been declining. Public catering enterprises and retailers, especially in the non-food segment, reported a rise in sales.

Overall, consumer demand was growing at higher rates in 2025 H2 than in 2025 H1. The acceleration was partly linked to an increase in car purchases ahead of the rise in the recycling fee. Excluding this factor, consumer demand growth did not accelerate but remained fast, supported by a considerable upturn in household incomes. Furthermore, the acceleration in 2025 Q4 may have been driven by households seeking to make major purchases before the VAT increase. Consequently, a certain cooling of consumer activity can be expected in early 2026.

Growth in investment demand slowed down in 2025 as compared to 2024. Nevertheless, investment volume in the economy remained at its highest levels over recent years. In January–September 2025, fixed capital investment amounted to ₽26.3 trillion. Adjusted for price increases (the investment deflator), they were up by 0.5% YoY. The high level of investment achieved in recent years provides a foundation for expanding production capacities. Given the lag between capital investment and the commissioning of new facilities, their contribution to boosting production potential materialises gradually.

Labour market tightness is easing, albeit slowly. According to surveys, the proportion of companies experiencing labour shortages is declining. Some enterprises continue shortening the working week, although this type of part-time employment still accounts for a small share in the overall economy. Current wage growth rates are lower than in 2024 but continue to outpace the increase in labour productivity. The discussants noted that, according to surveys, companies plan to raise wages more moderately in 2026 as compared to 2025 and previous years.

The pace of federal budget spending has been gradually slowing in 2025 H2 in line with the new seasonal pattern. Current budget projections do not assume a similarly pronounced spike in spending in December as that observed in previous years. In addition, according to these projections, **in 2026, fiscal policy will have a disinflationary effect on price dynamics**. Specifically, additional expenditures are planned to be funded by higher tax revenues, with a return to a zero structural primary deficit anticipated as of the end of 2026. The participants also discussed the impact of the situation in the crude oil market on federal budget parameters. They stated that, if prices for Russian oil remain close to the current levels next year, it might be necessary to adjust the base crude price within the fiscal rule for the coming years.

According to the discussion participants, **the economy is gradually returning to a balanced growth path**, as evidenced by a significant slowdown in inflation since the start of 2025 (primarily in terms of its underlying components), among other things. However, demand still remains overheated. Most discussants continue to believe that the overheating will subside in 2026 H1. As it declines and the effect of one-off proinflationary factors (higher VAT, tariffs, and fees) wanes, current inflationary pressures will continue to ease.

MONETARY CONDITIONS

MAIN FACTS

Money market rates and OFZ yields mainly decreased over the period following the October meeting. In October–November, deposit rates rose slightly, whereas fixed loan rates went down. The retail loan portfolio edged up (MoM). Growth in corporate lending accelerated (MoM). The annual growth rate of broad money, adjusted for foreign currency revaluation, was up.

DISCUSSION

According to the participants in the discussion, **monetary conditions have slightly eased overall since the previous key rate meeting, while remaining restrictive**.

Price indicators were changing diversely over the period following the October meeting.

- Money market rates and OFZ yields mainly decreased, most notably in the medium- and long-term segments, which primarily reflected the market's response to a stronger-than-expected decline in actual inflation.

- Deposit rates edged up following their considerable downturn in summer–early autumn 2025. This adjustment was attributable to the revision of banks' expectations regarding the key rate path. Following the July decision, banks were anticipating a faster easing of monetary policy. However, the Bank of Russia's subsequent decisions and the emergence of one-off proinflationary factors in autumn 2025 (the announced increase in the VAT, tariffs, and fees in 2026) made them revise their key rate forecasts. Some discussants reiterated that the rise in deposit rates might also be fuelled by banks' stronger demand for deposits amid a rebound in lending in 2025 H2.

- In October–November 2025, fixed loan rates continued dropping due to a longer transmission lag of the earlier key rate cuts in this segment as compared to deposits as well as an increase in loan disbursements at rates lower than market ones. The meeting noted that, considering higher deposit rates, there was limited room for a further reduction in loan rates in the coming months, with a reversal of their trends also possible. This is further evidenced by the December uptick in corporate bond yields.

Most participants agreed that, **taking into account the rise in inflation expectations, price monetary conditions in real terms had eased, while remaining restrictive. Non-price lending conditions barely changed, also staying tight.** Spreads between floating loan rates and the key rate remained close to the levels observed before their increase in autumn 2024.

According to the discussants, **monetary conditions were at their tightest in 2025 Q2. Their gradual easing in 2025 H2 supported lending activity.** High-frequency data show that the increase in claims on the economy will be close to the upper bound of the Bank of Russia's October forecast of 8–11% at year end.

- In 2025 Q4, corporate lending continued growing at high rates (higher than in 2025 H1). The expansion was observed across a wide range of borrowers, evidencing companies' stronger demand for credit. In part, the 2025 H2 acceleration could be attributed to the changes in the seasonal pattern of budget spending, which has become more even within the calendar year. The inflow of budget funds into companies' accounts (under public procurement contracts) was higher than usual in 2025 H1 and lower than usual in 2025 H2. This could encourage enterprises to borrow less in 2025 H1 but more in 2025 H2. It was also argued that the reversal of the trends in corporate lending could point to an excessive easing of monetary conditions, especially against the backdrop of businesses becoming more optimistic about future demand (according to surveys).
- Retail lending continued to expand at a modest pace, although also showing some recovery, mostly in mortgages and car lending.

The participants noted that, as of the end of 2025, the increase in banks' claims on organisations might be higher than the upper bound of the October forecast, while the rise in their claims on households might approach its lower bound.

Households' propensity to save remained high. That said, the structure of the increase in savings slightly changed. The decline in the inflow of funds into time deposits over recent months was accompanied by growth of investments in securities and real estate, which is a natural response to falling interest rates. The saving ratio has edged down since the beginning of the year, while remaining close to the historical highs. Fast income growth enabled households to increase both consumption and savings. A view was expressed that the rise in real estate investment might have a proinflationary effect by boosting demand for certain consumer goods and services (e.g. home improvement).

The growth rates of broad money (adjusted for foreign currency revaluation) were up in October–November 2025, primarily due to the acceleration in the expansion of corporate lending. Since August 2025, the cumulative year-to-date growth rate of broad money (adjusted for foreign currency revaluation) has been exceeding the upper bound of the range of its changes observed in 2016–2019 when inflation was close to 4%.

The participants particularly emphasised that the growth rates of money supply in the national definition (M2) for 2025 would not only fall within the range forecast by the Bank of Russia in October (7–10%), but would also be within the range forecast in early 2025 (6–11%). Nevertheless, the changes in its main components relative to the start-of-year forecast were diverse. The increase in corporate lending came in within the forecast range set at the beginning of the year, while that in retail lending turned out lower. The inflow of budget funds into the economy was more considerable than assumed in the preliminary budget projections of early 2025. Curbing inflationary pressures caused by the additional inflow of budget funds required a higher key rate path than assumed at the beginning of the year, which contributed to a more constrained dynamics of credit to the economy as a whole. The meeting also highlighted that while the overall dynamics of monetary aggregates are important to assess the degree of monetary tightness, in an inflation targeting regime, the nominal anchor for monetary policy is the inflation target and forecast.

The discussants noted that **the estimates of banks' and borrowers' financial resilience had barely changed over the past period**. Based on the financial statements published as of 1 October 2025, a number of major companies experienced a slight rise in their debt burden. In the segment of small and medium-sized enterprises, there was a certain deterioration in the quality of loan servicing. Nevertheless, the quality of the corporate portfolio remained acceptable overall. The volume of restructured loans stabilised. The expected losses on loans are covered by reserves, and banks have sufficient capital buffers. In addition, a more balanced approach applied by banks to selecting borrowers may contribute to the improvement in the quality of the credit portfolio further on.

EXTERNAL ENVIRONMENT

MAIN FACTS

According to high-frequency data, global economic growth in 2025 H2 was higher than expected by the Bank of Russia and market participants. Inflationary pressures in the key economies were changing diversely. For the year to date, prices for most Russian exports dropped and were below last year's levels on average. The current account surplus was close to last year's figures in October and lower than those in November. The ruble slightly appreciated against the main foreign currencies in November but weakened in December, returning to the levels of late October 2025. Since early 2025, it has been 10% stronger on average than in 2024.

DISCUSSION

The meeting stated that **the adverse impact of the import tariff increases on the world economy turned out weaker than expected**. This was associated with the following factors. First, the effective US import tariff rate was lower than the announced one due to the exemptions for certain groups of goods and the geographic adjustment of supply chains. Second, business sentiment improved worldwide following the mutual trade easing measures taken by the US and China. Nevertheless, the uncertainty related to intensifying trade tensions is still high, with the risk of a deterioration in the global economic situation persisting.

Inflation dynamics in the largest economies worsened somewhat. In the euro area, inflation remains close to the target, but the risks are shifted upwards. The ECB admits the possibility of monetary policy tightening. The US Fed continued its cautious easing of monetary policy due to the labour market weakness. Simultaneously, financial markets expect a slower reduction in the Fed funds rate next year. The participants in the discussion noted that underlying inflation remaining above the target in the US and the possible effects of higher import tariffs limited the room for a further easing of monetary policy by the US Fed. The Fed funds rate might be decreased to a lesser extent and more gradually than expected by the market.

The 2025 prices for Russian crude oil are running lower than the Bank of Russia's October forecast, which is associated with both the deteriorating situation in the global oil market due to the increasing surplus and the introduction of new sanctions. According to the discussants, **the risks of oil prices being lower than the October forecast in the coming years persist.**

Despite worsening external conditions, the ruble remained strong. The participants believed that this was the result of a combined effect of monetary policy, structural changes, and market participants' expectations. First, although monetary conditions eased, they remained restrictive, constraining the increase in demand for imports and supporting the attractiveness of ruble assets as a savings instrument. Second, there is a long-term influence stemming from structural factors. The development of import substitution, tariff-related restrictions on imports, and reduced opportunities for residents to invest in foreign assets lead to fundamentally lower demand for foreign currency, thus underpinning a stronger ruble. Finally, market expectations of an improvement in the geopolitical environment were having a short-term impact on the exchange rate dynamics.

INFLATION RISKS

The discussants shared the opinion that **proinflationary risks still outweighed disinflationary ones over the medium-term horizon**.

The main **proinflationary risks** include:

- *A slower decline in the positive output gap (the continued overheating of demand)*, which can be the result of both persistently elevated domestic demand and more severe supply-side constraints. Demand may be high if lending resumes accelerated growth. If labour shortages persist or become more acute, this can lead to faster growth of real wages, outpacing that of labour productivity even more. Tougher sanctions may decelerate the expansion of the economic potential. If demand remains significantly overheated or its considerable 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 may be triggered by the materialisation of one-off proinflationary factors – the VAT rise and the higher indexation of utility tariffs. Higher inflation expectations may entail second-round effects and increase underlying inflation.

- *Worsening terms of external trade due to deteriorating conditions in global commodity markets and geopolitical developments*. A global economic slowdown caused by intensifying trade tensions and expanding protectionist measures 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 may lead to persistently high domestic demand and inflation.

The main **disinflationary factors** include:

- *A more considerable slowdown in domestic demand growth*, which will lead to a faster deceleration of inflation and its downward deviation from the target.

CONCLUSIONS FOR MONETARY POLICY AND THE KEY RATE DECISION

Following the analysis of the data and their assessment against the Bank of Russia's October forecast, **most participants supported a 50 bp key rate cut to 16.00% per annum**. The meeting also **considered reducing the key rate by 100 bp** to 15.50% per annum and **keeping it unchanged at 16.50% per annum**. The discussants suggested that neither of the key rate decision alternatives should be accompanied by a clear signal regarding future steps.

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

- In recent months, inflation dynamics have largely been distorted due to the effect of one-off factors, with underlying inflation measures fluctuating significantly. The growth rates of prices for commercial services remain high (6–7% SAAR). These conditions require caution when assessing sustained trends in inflation dynamics. Furthermore, considering elevated inflation expectations and a substantial contribution of one-off factors to inflation, stabilising price growth rates close to 4% in 2026 might necessitate a decline in measures of underlying inflation below this level.

- A higher-than-expected estimate of the contribution of proinflationary factors in 2026 amid households' and businesses' growing inflation expectations creates additional risks to price dynamics. A pause in cutting the key rate will make it possible to better assess the effects of the upcoming increases in tariffs, fees, and taxes.

- In 2025 H2, lending has notably recovered, especially in the corporate segment. Growth in claims on the economy as of the end of 2025 might come in closer to the upper bound of the October forecast. A pause will allow the regulator to assess a further adjustment of monetary conditions.

- In 2025 Q4, consumer demand has been growing more confidently than expected. Companies have become more optimistic about future demand for their products. The labour market remains considerably tight, while wage growth rates continue to outpace the increase in labour productivity. All of the above points to a potentially slower narrowing of the positive output gap.

- Risks associated with fiscal policy persist. The events of recent years have repeatedly triggered the need to increase budget expenditures beyond the planned amount. This requires a conservative approach and the consideration of potential risks to price dynamics in decision making.

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

- Actual inflation in 2025 Q4 is running notably lower than the October forecast, while annual inflation for 2025 might be below 6% at year end. Underlying inflationary pressures are expected to be closer to 4% SAAR in 2025 Q4. Although proinflationary factors will lead to an acceleration in price growth in 2026 Q1 and their contribution is likely to be higher than estimated, the achieved inflation level provides room for a further gradual easing of monetary policy.

- Inflation expectations remain backward-looking. Their recent growth was associated with one-off factors. Inflation expectations will decline as the impact of these factors subsides and sustained disinflation resumes.

- Overall, monetary conditions remain tight, despite a certain easing. Households continue to save, changing the structure of savings. The acceleration in corporate lending growth in 2025 H2 is consistent with the easing of monetary conditions that happened earlier, with credit dynamics being overall in line with the Bank of Russia's October forecast.

- The overheating of demand is gradually abating, which is evidenced both by the decline in labour market tightness and by the continuing slowdown in price growth. The rebound in consumer demand in 2025 H2 is attributable to one-off factors (the anticipated increase in the recycling fee and VAT). Excluding car purchases, growth in consumer demand has not accelerated. In early 2026, consumer activity will slow down again under the influence of the continued monetary tightness and a more moderate increase in household incomes. As a result, the positive output gap will continue to narrow.

- Based on the budget projections, the structural primary budget deficit is expected to be zero next year, which will have a restraining effect on inflation. Additional budget expenditures will be financed through higher tax revenues rather than borrowing.

Most participants agreed that **there was room to reduce the key rate**. They pointed out that it would become possible to more accurately assess the effects of the increase in the VAT and some administered prices only by the March meeting. That said, maintaining the key rate at the current high level for several months (until March) amid a slowdown in economic growth might prove unwarranted and lead to excessive cooling as well as a significant downward deviation of inflation from the target in the future. To sustainably stabilise inflation at the target, cyclical fluctuations in output must be minimised.

When discussing **the size of the key rate reduction**, the participants who suggested a 100 bp cut were more optimistic in their interpretation of the easing of current inflationary pressures in November, seeing it as a sign of sustained disinflation. They also noted that, given the current high levels of market rates, a decrease by less than 100 bp would have a less significant impact on the adjustment of monetary conditions. However, the majority of participants proposed lowering the key rate by 50 bp. This more cautious step takes into account the proinflationary factors that will materialise in the coming months and their potential effects on inflation expectations and the behaviour of economic agents.

When justifying the absence of a clear signal regarding the trajectory of key rate changes at the next meetings, the discussants pointed out that proinflationary risks prevailed over the forecast horizon. The Bank of Russia might have to make pauses between key rate cuts. Concurrently, an extended period of tight monetary policy is needed to stabilise inflation at the target. This need should be reflected in the communication.

Following the discussion, **on 19 December 2025, the Bank of Russia Board of Directors decided to cut the key rate by 50 bp to 16.00% per annum**. The Bank of Russia will keep monetary conditions as tight as required to return inflation to the target. This means that monetary policy will remain tight for an extended period. Further key rate decisions will depend on the sustainability of the slowdown in inflation and the dynamics of inflation expectations. According to the Bank of Russia's forecast, given the monetary policy stance, annual inflation will decline to 4.0–5.0% in 2026. Underlying inflation will reach 4% in 2026 H2. From 2027 onwards, annual inflation will remain at the target.