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Russia’s 2025 Budget Seen as Pro-Inflationary – Analysts

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A view of the Moscow Kremlin. **Vasily Kuzmichenok / Moskva News Agency**

Russia's federal budget for 2025-2027 submitted by the government to the State Duma could contribute to higher-than-expected inflation, analysts at Renaissance Capital warned Tuesday.

According to bne IntelliNews, the 2025 budget boosts military spending by 25%, with the Russian Central Bank warning of fiscal risks to inflation.

In addition, the planned indexation of housing and utility tariffs in 2025 by 12% is much higher than the previously planned 6%.

“Purely technically, this will add an additional 0.5 percentage points to inflation next year. We are also concerned that this makes it doubtful that the practice of indexing tariffs by an amount close to the inflation target (4%) will be maintained in the future,” RenCap analysts warn.

The growth in consolidated budget spending (federal and regional) is projected at 7 trillion rubles, reaching 80 trillion rubles in 2025 — higher than RenCap's estimate of the inflation-neutral spending level (77 trillion rubles).

“Taking into account the new budget parameters and the indexation of utility tariffs, we see inflation at around 5.4% in 2025 (current forecast: 4.7%); we still expect the key interest rate to rise by 100 basis points to 20% in October and note the risk of a further rate hike in December,” the analysts argue.

RenCap analysts expect limited room for rate cuts in 2025, with a baseline projection of a key interest rate between 14.5% and 15%.

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