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INDEPENDENT NEWS FROM RUSSIA

Russia's Inflation Rate Climbs Higher Again

Prices are rising at 6.5% in annual terms, well ahead of the Central Bank's comfort zone.

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Russia has started raising interest rates in an attempt to tame spiralling inflation. **Sophia Sandurskaya / Moskva News Agency**

Russia's inflation rate climbed to a new five-year high in June as the country struggles with surging prices which threaten to derail the economic recovery.

Inflation came in at an annual rate of 6.5%, the Rosstat federal statistics service said Wednesday — the fastest pace of price rises since August 2016.

The reading was higher than market expectations and could trigger the Central Bank to consider another large interest rate hike even as a vicious third wave of the coronavirus threatens to derail the Russian economy.

The Bank is almost certain to take some action when it meets later this month, with Governor Elvira Nabiullina previously stating the regulator would consider an increase of anywhere from 25 to 100 basis points — taking interest rates to anywhere between 5.75-6.5%.

“Given the CBR's more hawkish rhetoric of late, the inflation print lends more credence to the idea that a 100 bp rate hike is forthcoming,” said Sberbank analyst Igor Rapokhin.

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Economists pointed to another sharp increase in food prices as driving the headline inflation rate higher — a reversal of last month’s trend which had seen food inflation start to moderate. Core inflation — a reading which strips out the most volatile items and is seen by some as a more reliable indicator of medium-term price rises — also rose higher in June.

The Central Bank is mandated to target an inflation rate of 4%.

Sova Capital’s Artem Zaigrin said he expects inflation will climb higher still over the summer, peaking close to 7% in the next few months.

Rising prices have caused a political headache for the Kremlin, with Russians regularly rating higher prices and declining living standards as their top concern.

Ahead of parliamentary elections scheduled for September, President Vladimir Putin has announced a series of cash handouts to families in a bid to support incomes after the coronavirus, which saw average disposable incomes sink to their lowest level in 10 years.

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