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INDEPENDENT NEWS FROM RUSSIA

Russia’s Inflation Moderates, Remains at 5-Year High

The pace of food price increases has started to slow down, but inflation remains well above government targets.

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Russia's inflation rate is running at 6.5% a year. **Alexander Avilov / Moskva News Agency**

Food prices across Russia have started to moderate after months of sharp increases, data published by the Rosstat federal statistics agency has shown.

Inflation for food products came in at an annual rate of 7.4% in July — down from the 7.9% registered in June, Rosstat said.

Cooling prices will be welcome news both in the Kremlin, given how politically sensitive the issue of food prices are in Russia, as well as the Central Bank, which has aggressively hiked interest rates in a bid to tame surging inflation and keep Russia’s economic recovery on track.

Russia’s overall inflation rate was 6.5% in July, unchanged from June but slightly below

analysts' expectations. The slowdown triggered economists, including at VTB Capital and Sova Capital, to trim their forecasts for where inflation will be by the end of the year, and prompted a wave of speculation that the Central Bank could take a less hawkish approach to interest rate hikes over the coming months.

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Sova Capital's chief economist Artem Zaigrin also said the reopening of key tourist destinations and the improved global situation with coronavirus would also ease inflationary pressures in Russia. The Central Bank estimates Russians spent at least an extra $30 billion at home in 2020 due to border closures — an increase in demand which pushed inflation higher.

But core inflation — a measure of price rises which strips out the most volatile goods and services and is sometimes seen as a more reliable measure of mid-term inflation — continued to climb during July, registering 6.8% on an annualized basis.

"The key issue is this year's harvest, which could increase the pressure on the headline inflation rate in the coming months following droughts and smaller harvests of fruits and vegetables," added Zaigrin.

VTB Capital's Alexander Isakov said Russia remains on track for a good harvest, and global trends are also showing a moderation in food prices around the world — factors which should help keep Russia's inflation rate in check.

Price rises have been running above the Central Bank's official 4% target for the last 10 months, forcing the regulator into a series of sharp interest rate hikes.

Of particular concern for Governor Elvira Nabiullina is the public's perception of price rises. Given Russia's history of financial crises, devaluations and double-digit inflation, she fears Russian consumers' behaviour threatens to push the country into a vicious inflation spiral — where fears of more price hikes in the future prompt consumers to accelerate their spending, thus pushing prices up.

Rising prices have also created unrest in the Kremlin as it prepares for next month's crucial parliamentary vote, prompting the introduction of price caps and export blocks on key food products.

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