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INDEPENDENT NEWS FROM RUSSIA

Russian Inflation Jumps to 8.1%

Prices are accelerating at the fastest pace in almost six years.

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Food prices have risen rapidly over the last 12 months. **Moskva News Agency**

Inflation in Russia climbed to its highest level in almost six years in October as the government and Central Bank struggle to rein in rapid price rises which threaten to undermine economic recovery.

Inflation hit 8.1% last month, the Rosstat national statistics service said Wednesday — the fastest rate of price increases since February 2016, and more than double the Central Bank's 4% target. That was up from a reading of 7.4% a month earlier and ahead of market expectations.

The higher prices come as policymakers around the world face the prospect of so-called "stagflation" — high inflation and sluggish growth — as the global economy continues to emerge from the coronavirus. In the U.S., inflation is currently running at a 13-year high amid major supply chain bottlenecks.

Russia's Central Bank chief Elvira Nabiullina has for months sounded the alarm over global

price rises, putting herself at odds with western policymakers earlier this year by warning them the uptick in inflation was not just a transitory phenomenon.

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In Russia, surging food prices were behind the latest increase in the headline inflation rate. Food prices have risen by more than 12% over the last year, according to Rosstat, while some staple goods such as fruits, vegetables and eggs have become 25% more expensive over the same period.

Economists say surging inflation, particularly for everyday items, hits poorest households hardest. According to a recent Levada Center poll, Russians rank rising prices as the country's biggest problem.

Despite recovering to a six-year high in the third quarter of 2021, Russians' living standards — as measured by real disposable incomes, a closely-watched indicator of household finances — are still 5% lower than they were in 2013.

Russia's Central Bank has hiked interest rates aggressively in a cat-and-mouse attempt to stem rising inflation before it threatens to derail the wider economy. Nabiullina raised the key rate to 7.5% in October and promised more increases would be on the way should the situation not improve.

Of particular concern to Russia's rate setters is the prospect of falling into an inflationary spiral, where people fear rapid price rises and so bring forward major purchases or try to stockpile staple goods, thus artificially increasing demand and pushing prices yet higher. Two key measures of how the Russian public views price rises — "observed inflation" and "inflation expectations" — show households believe prices are rising much faster than the Rosstat statistics show, and that they believe they will continue to do so, despite rate hikes from the Central Bank.

All of that is a worry for the government and Central Bank, experts say.

"These trends are likely to continue to keep the Central Bank on its toes," said Dmitry Polevoy, investment director at Loko Invest, who expects another major hike in interest rates to 8.5% when the bank next meets in December.

Analysts expect inflation to peak sometime in the next few months before beginning to fall back in 2022 as the effects of the Central Bank's aggressive hiking cycle play out through the economy, and the global economy continues to normalize.

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