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INDEPENDENT NEWS FROM RUSSIA

Russia's Inflation Surges Once More, Central Bank Poised for Rate Hike

Inflation has surpassed expectations again, climbing to 8.4% in November.

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Inflation has hit hard in a country where around 60% of the population have no savings. **RBC / TASS**

Russia's rate of inflation shot higher in November, climbing to 8.4%, its highest reading in almost six years, the Rosstat national statistics service said Wednesday.

Prices have risen fast over the last 18 months as the economy emerges from the coronavirus recession, and Russia's Central Bank has hiked interest rates aggressively in a bid to kill-off what governor Elvira Nabiullina fears could turn into a vicious inflationary cycle.

Inflation is now running at well over double the Central Bank's official target of 4%, rising from a reading of 8.1% in October to its highest level since January 2016.

Surging food prices have been behind rising headline inflation, with fruit and vegetable prices

up almost 20% over the last year, Rosstat said — a driver of deep political and economic discontent in a country where living standards are around 10% lower than they were in 2013.

The latest figures showed signs that food inflation may be slowing down, only for services prices to have started rising faster, said Loko Invest analyst Dmitry Polevoy.

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Economists had expected inflation would cool in November, with a short-term dip in prices as Russia entered a partial lockdown at the start of the month in a bid to tame rising coronavirus infection rates, providing optimism the country had turned a corner.

But the reading of 8.4% has once again surpassed expectations — a familiar story in recent months as analysts predicting that the "peak" of inflation has passed have repeatedly been proved wrong.

A big contributor to the monthly rise was foreign tourism — with the price of holidays to Turkey rising by 55% over the month according to Rosstat. Economists pointed to a statistical quirk in the calculations, but said other trends, such as rising core inflation — a measure which strips out the most volatile price moves — pointed to more sustained inflationary trends.

Russia's Central Bank is expected to respond aggressively when it meets later December to decide on interest rates. Financial markets are pricing in an increase of a full percentage point, to take rates to 8.5%, even as the wider economy slows and faces headwinds from more coronavirus restrictions and uncertainties over the highly-transmissible Omicron variant.

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The regulator, which has a reputation for orthodoxy and deep-seated fears of inflation, had reluctantly cut rates to record lows at the start of the pandemic to support the economy, but has been one of the world's most aggressive rate-hikers this year.

Some analysts have now moved to predict inflation will remain high into next year.

"Disruptions in supply chains could weigh further on price increases [which] could prevent inflation from moderating in the coming weeks, maintaining the momentum into 2022," said Sova Capital's Artem Zaigrin, citing temporary pauses in automobile production at major factories due to the global semiconductor shortage.

Governor Nabiullina, as well as President Vladimir Putin and Prime Minister Mikhail Mishustin have all been sounding the alarm over rising prices in recent months. Nabiullina said inflation was a "disaster" for the economy which directly hits Russian households' living standards and threatens to undermine the economic recovery.

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