

Russian Inflation Continues Surge Ahead of Central Bank Key Rate Decision

February 10, 2022



Prices in Russia have risen rapidly over the past 20 months. Denis Voronin / Moskva News Agency

January prices rose by their highest levels in six years across the Russian economy, the country's statistics service <u>said</u> on Wednesday, increasing pressure on household budgets.

Russia's rate of inflation accelerated 8.73% year-on-year in the first month of the year, following rapid price rises over the past 20 months amid an otherwise robust recovery from the coronavirus recession. Inflation, as measured by the nation's consumer price index (CPI), currently stands at more than double the Central Bank of Russia's target of 4%.

Wednesday's inflation numbers were the last major indicators to be published before the Central Bank announces its latest rate decision on Friday. Analysts forecast that the bank will hike rates by 100 basis points to 9.5%.

But with January's surge proving to be 0.2 percentage points below the consensus forecast, the monthly numbers "somewhat lower the risk" of inflation accelerating past 9%, said Dmitry Dolgin, chief economist for Russia at ING Bank.

The January numbers followed a total increase of 8.4% for 2021, the highest annual inflationary growth since the 2015 economic crisis.

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Food prices last month were once again the main contributor, growing from 10.6% year-on-year in December 2021 to 11.1% in January 2022. Services rose at a slightly faster rate, accelerating from 4.98% to 5.38%, while year-on-year growth for non-food items increased from 8.58% to 8.73%.

"The surge in service prices reflects the recovery in business activity from Covid-19, while strong food price pressures could be partly related to the domestic harvest and be indicative of difficult global logistics," said Artem Zaigrin, chief economist at Sova Capital.

"We believe that the further acceleration of CPI in January-February and stronger-than-expected local demand at the end of 2021 support the Bank of Russia's narrative of elevated inflationary risk for the medium term," said Dolgin.

Zaigrin, while maintaining expectations for a 100bps rate hike, said that "we now see a greater chance of a lower hike and zero chance of it being higher than 100bps" in light of Wednesday's numbers.

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