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Russia Reports Steep Inflation Drop as High Interest Rates Weigh on Economy

By AFP

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A customer at a Pyaterochka grocery store in the town of Lyubertsy. **Mikhail Tereshchenko / TASS**

Russia reported the steepest drop in annual inflation so far this year, data from the state statistics agency showed Wednesday, as high interest rates cool off the war economy.

Ramped-up military spending had boosted the Russian economy for two years after it sent troops to Ukraine.

But it also spurred inflation, which now weighs on growth, as businesses rail against high borrowing costs which they say are holding back the economy.

According to figures published by statistics agency Rosstat, the annual inflation in November dropped to 6.6% compared to 7.7% a month prior.

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Last month, Rosstat said the country's economic growth was close to zero in the third quarter, while the Central Bank expected to keep interest rates higher for longer over the stubborn inflation rate.

The regulator sees annual inflation to ease to its 4% target only in 2027.

In order to plug holes in Russia's stretched public finances, the Kremlin is looking to tap the pockets of citizens and businesses to plug a budget gap running at around $50 billion so far this year.

President Vladimir Putin recently approved raising the value-added tax (VAT) to 22% from 20% next year.

Lower oil prices were also a headache for the budget, with fossils bringing almost a fifth of the state revenues.

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