

Eurozone inflation hits another record high as food and energy prices soar

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In the 19 countries sharing the euro, inflation surged to 8.1 percent in May, up from 7.4 percent in April, according to newly released data by Eurostat. (File Photo)

Berlin, May 31 (RHC)-- Prices in the eurozone touched another record high in May, challenging the European Central Bank's view that gradual interest rate increases from July will be enough to stem the soaring inflation.

In the 19 countries sharing the euro, inflation surged to 8.1 percent in May, up from 7.4 percent in April, beating expectations for 7.7 percent amid steep price rises, according to data released by Eurostat on Tuesday.

Prices have seen a sharp surge across Europe over the past year, initially triggered by supply chain problems in the wake of the coronavirus pandemic and later fueled by the war in Ukraine.

Germany came in at an annual 8.7 percent in May, preliminary figures showed earlier this week, exceeding expectations of 8 percent. French inflation also beat expectations in May to record 5.8 percent, up from 5.4 percent in April, while Spanish consumer prices also jumped by an annual 8.5 percent in May, beyond the expected number of 8.1 percent.

Across the eurozone, the record annual consumer price increase was driven by soaring energy costs, which hit 39.2 percent, and a 7.5 percent hike in food, alcohol, and tobacco prices.

While headline inflation is now four times more than the ECB target of 2 percent, ECB policymakers are apparently fretting over underlying prices.

ECB President Christine Lagarde and chief economist Philip Lane, in a bid to contain inflation, have already announced certain measures but economists doubt if they will be enough.

The rising inflation, particularly in food and energy, has been aggravated in recent months by Russia's military operation in Ukraine, with Western countries slapping unprecedented sanctions on Moscow. The ECB will next meet on June 9 where it will formally end a bond purchases scheme at the end of June and continue to signal the rate hikes.

The European leaders on Monday agreed to ban 90 percent of Russian crude oil by the end of the year, pushing prices even higher. Charles Michel, president of the European Council, said the move would immediately hit 75 percent of Russian oil imports.

Earlier this month, European Central Bank President Christine Lagarde said she was anticipating a rate rise at the central bank's meeting in July. "Based on the current outlook, we are likely to be in a position to exit negative interest rates by the end of the third quarter," she wrote in a blog post.

"If the euro area economy were overheating as a result of a positive demand shock, it would make sense for policy rates to be raised sequentially above the neutral rate."

Meanwhile, France's economy contracted in the first quarter of the fiscal year under the impact of soaring inflation, data showed Tuesday, compounding problems for President Emmanuel Macron ahead of parliament elections less than two weeks away.

The economy shrank 0.2 percent from the previous quarter, the statistics office INSEE said, after last year's strong 6.8 percent recovery as the COVID-19 pandemic eased.

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