

## Russia: 2018 CPI at 4.3% exceeds central bank target

The CPI number does not mean a key rate hike on 9 February, as the recent hike to 7.75% was presented as 'preemptive', and the acceleration in CPI was driven only by food. The reaction of CPI and inflationary expectations to VAT and excise hike are unlikely to be solved until 23 March, a core CBR meeting



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# 4.3% YoY

Worse than expected

Russian CPI as of December 31, 2018

CBR target range 3.8-4.2%

Although the final estimate of December CPI in Russia of 4.3% is slightly higher than the official target range of 3.8-4.2%, we do not see it as a sufficient argument in favour of a key rate hike at

the upcoming Central Bank of Russia (CBR) meeting on 9 February for the following reasons.

- The final estimate is a result of a very minor upward revision from 4.2% to 4.3% year-on-year (YoY), with the 0.8% month-on-month (MoM) figure reiterated;
- The acceleration in the annual rate vs November's 3.8% YoY was the sole result of food price acceleration from 3.5% to 4.7% YoY, while non-food inflation slowed from 4.2% to 4.1% YoY, reflecting a freeze in gasoline prices and weakening consumer demand;
- The surprising 25 basis point rate hike to 7.75% in December 2018 was presented as pre-emptive, which should lower the necessity to react immediately now.

The known unknowns for the CBR regarding the CPI trend at this point seem to be related to the scope of inflationary response to the VAT and excise hike effective 1 January both in terms of current CPI and inflationary expectations by households and corporates, the sustainability of the gasoline price freeze beyond March, as well as the prospects of further sanction pressure on Russia. We do not expect any of those to be clarified before 23 March, when a core CBR meeting (accompanied by the governor's statement and forecast updates) takes place. The latter could lead to another 25 basis point hike if by then it becomes apparent that the CBR is likely to approach or exceed the 6% ceiling outlined earlier by the CBR and/or inflationary expectations by households and corporates continue to rise.

We are looking forward to tomorrow's flash estimates of CPI for 1-9 January as it should reflect Russia's initial reaction to the VAT and excise hikes. According to our estimates, the overall effect should total 1.5-2.0 percentage point, however, the effect may have partially been seen since 4Q18 and may spread till mid-2019 rather than represent a single one-off spike in January.

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