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Snap

## Russian CPI: initial reaction to VAT hike modest

Following the hike in VAT from 18% to 20% effective 1 January 2019, CPI increased 0.5% on January 1-9. The initial reaction appears moderate as it will take 3-6 months to fully assess the pass-through, and any changes in the key rate in February would likely be premature

According to preliminary estimates, CPI increased 0.5% on 1-9 January 2019, versus 0.2% for the similar holiday period of 2018. The annual rate has jumped from 4.3% to 4.6% YoY, according to our estimates.

The acceleration of CPI at the beginning of the year should be primarily attributed to the hike in VAT from 18% to 20% effective 1 January, however one should also keep in mind, that unlike the beginning of 2018, this time the year begins following a 17% RUB depreciation for the previous year. Given the two above-mentioned facts, the initial CPI dynamic appears modest, which could be explained by the counterbalancing effect of weakening consumer demand, which became evident in 2H18.

Meanwhile, we reiterate our take, that the pass-through of VAT and excise hike, which we estimate at 1.5-2.0 percentage points, should be spread throughout 4Q18 and 1H19. A CPI of 6.0% YoY should be seen as a primary threshold for additional key rate hikes, currently at 7.75%, however, an increase in the households' and corporates' inflationary expectations are also important factors to watch. In any case, we do not expect the Central Bank of Russia to have sufficient evidence by the upcoming 9 February meeting, so the subsequent 22 March core meeting will be the primary focus.

<https://think.ing.com/snaps/russia-2018-cpi-at-43-exceeds-central-bank-target/>

Dmitry Dolgin

Chief Economist, Russia

+7 495 771 79 94

[Dmitry.Dolgin@ingbank.com](mailto:Dmitry.Dolgin@ingbank.com)

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