

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



Source: Shutterstock

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/>

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.