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Russia's Planned VAT Hike Expected to Push Inflation Higher, Finance Ministry Says

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Finance Minister Anton Siluanov. **kremlin.ru**

Russia's plan to raise its value-added tax, or VAT, to fund soaring defense and security spending is expected to drive consumer prices up by around 1% next year, Finance Minister Anton Siluanov said on Monday.

"VAT may affect company financial results. Its impact on inflation is estimated at around 1%, which has been accounted for in wage and social payment indexation projections," Siluanov told lawmakers from Russia's upper-house Federation Council.

The Finance Ministry last month proposed raising the VAT rate from 20% to 22% starting next year to help close a widening budget deficit amid record military spending. The deficit is forecast to reach 5.74 trillion rubles ($69 billion), or 2.6% of GDP, in 2025.

Earlier, T-Investments chief economist Sofia Donets said the overall impact of the proposed

VAT rate increase could be inflation of around 1.5% in the first months of next year, as companies adjust prices to maintain their margins and pass costs on to consumers in advance.

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Separately, Economic Development Minister Maxim Reshetnikov told lawmakers on Monday that high interest rates continue to weigh on corporate profits and investment despite inflation slowing to around 8%.

The Russian Central Bank's key interest rate currently stands at 17%, and analysts expect additional rate cuts later this year.

However, Central Bank Deputy Chairman Alexei Zabotkin said policymakers remain focused on stabilizing inflation before further rate cuts. Russia's Central Bank said last month that it expects inflation to reach 6-7% by the end of this year and to return to its 4% target in 2026.

Siluanov said the VAT increase, if approved by lawmakers, as well as with higher growth and additional revenue, would ultimately create room for the Central Bank to ease monetary policy.

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