

Pass-through of the increase in the VAT rate on inflation

Download Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHORS AND/OR EDITORS Caicedo-García, Edgar Ramos-Forero, Jorge Enrique Rincón-Castro, Hernán Zárate-Solano, Héctor M.

The series Working Papers on Economics contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Tuesday, 8 of April 2025 **Abstract**One of the concerns of consumers and monetary authorities regarding the change in the VAT rate is the impact that this type of measure has on the value of the basic consumption basket and price growth. The objective of this study is to estimate the degree of pass-through that the VAT rate increase from 16% to 19% in 2016 registered on consumer inflation. Three methodologies are used: the first one is based on the weights of the groups of goods and services of the CPI basket and the second one is based on the input-output matrix. The third methodology corresponds to the application of the surrogate index procedure. According to the results of the first two methodologies, the pass-through of the tariff increase on CPI inflation was 1.03 percentage points (pp), of which 0.68 pp are explained by the direct effect, calculated through the CPI weights, and 0.35 pp by the indirect effect obtained through the input-output matrix, which is equivalent to a total pass-through percentage of 40%. The result of the proxy index procedure reveals that the pass-through on CPI inflation was 0.84 pp, which corresponds to a pass-through percentage of 33%. When the indexes that make up the CPI basket are analyzed in a disaggregated manner, it is found that the degree of pass-through is highly heterogeneous.

The pass-through of the VAT rate change is much less than proportional and highly heterogeneous.