

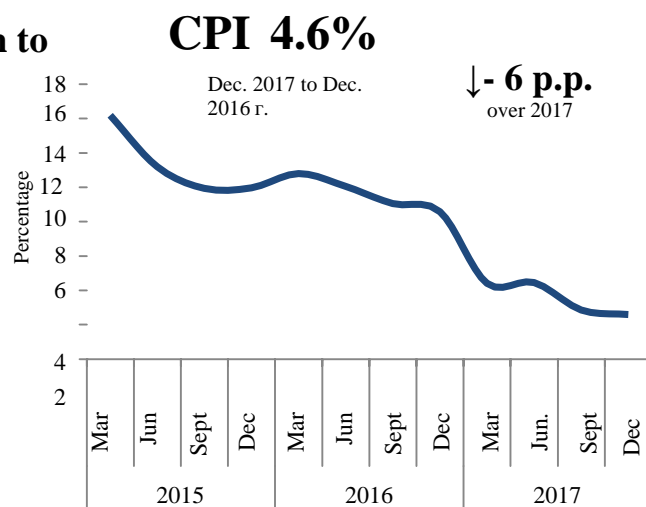
Information on the dynamics of consumer prices and rates and factors of changes therein

2017

In 2017, inflationary processes slowed down to a considerable degree.

The annual increase in consumer prices dropped from 10.6 percent in December 2016 to 4.6 percent in December 2017.

A drop in the intensity of price increases was due to both more moderate changes in the core inflation than in the previous year and the restraining policy of the administrative price regulation.

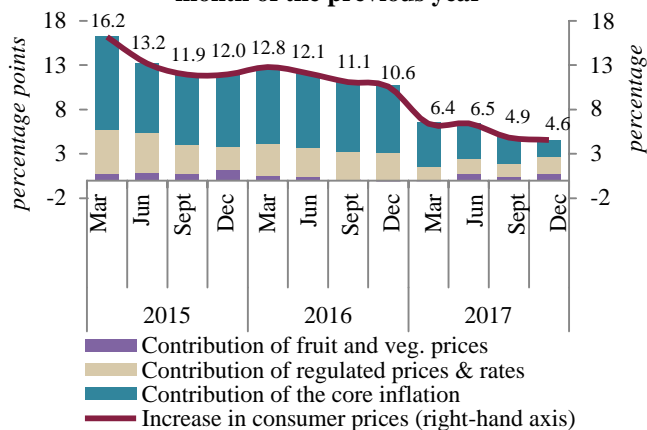


Source: the National Statistical Committee.

1. Overall change in consumer prices

In annual terms, the core inflation slowed down to 2.5 percent in December 2017, having dropped by 7.5 percentage points over the year. The annual core inflation was lower compared to the previous year as a whole. Minimal monthly rates of increase occurred in the beginning of the year and were, in large part, due to relatively low consumer demand. Starting in June

Breakdown of inflation against the corresponding month of the previous year

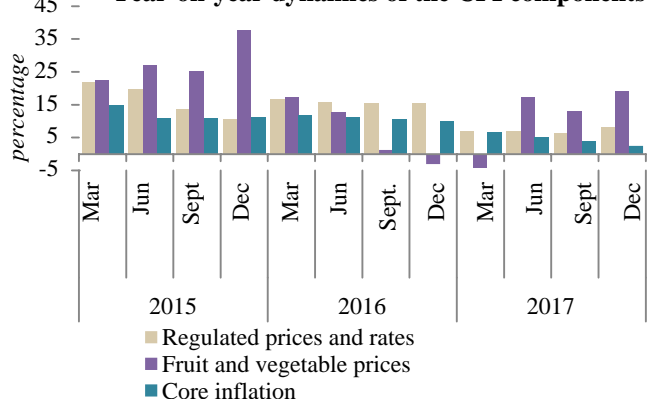


Source: the National Bank's calculations based on the National Statistical Committee's data.

2017, the monthly core inflation dynamics resumed.

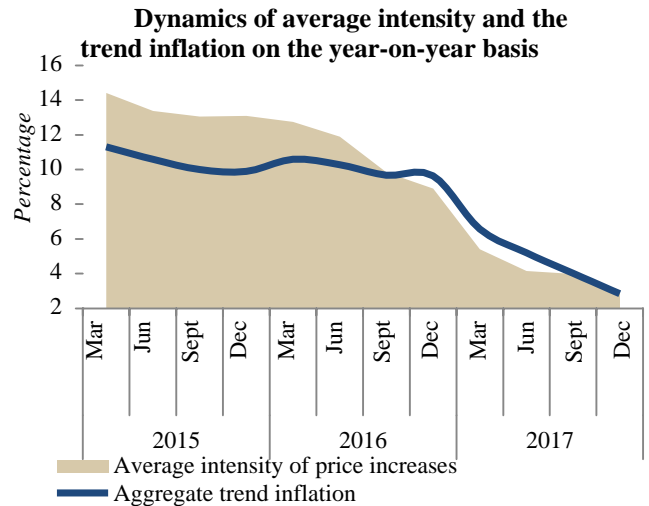
The annual increase in seasonal prices (for fruits and vegetables) in December 2017 totaled 19 percent. The most intense price increases occurred in Q2, when fruit and vegetable prices were significantly affected by the shock of unfavorable weather conditions. Thus, in April–June fruit and vegetable prices rose by 18.2 percent.

Year-on-year dynamics of the CPI components



Source: the National Bank's calculations based on the National Statistical Committee's data.

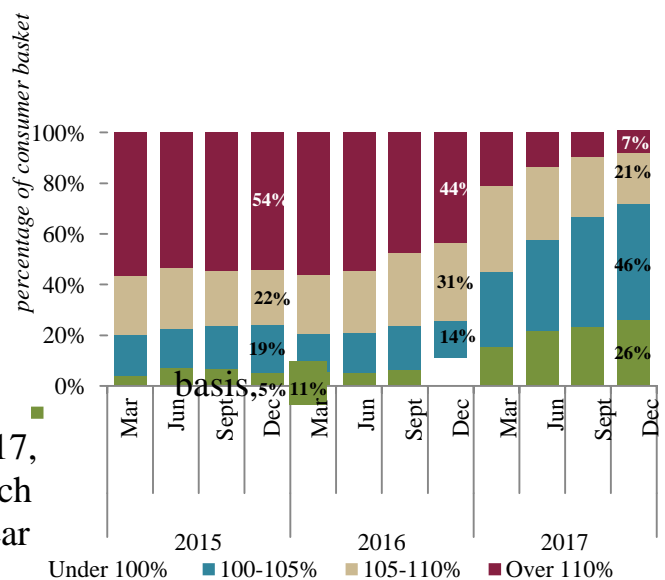
The administratively regulated prices are estimated to have risen in 2017 by 8.1 percent. The greatest increase was in the cost of housing and utility services – by 16.5 percent. Housing and utility rates were indexed in the manner prescribed by law in the framework of measures aimed at switching to full reimbursement of costs for the whole range of housing and utility services by consumers. Excluding the increase in housing and utility rates, the annual increase in regulated prices and rates in December 2017 totaled 5.3 percent.



Source: the National Bank's calculations based on the National Statistical Committee data.

Over the year, the trend inflation dropped to 2.8 percent, having been somewhat higher than the core inflation. That indicates that the observed slowdown in the core inflation was partially due to the temporary impact of the consumer market conditions. The average intensity of increase in consumer prices in December 2017 was 3 percent.

Dynamics of the CPI components dispersion on the basis of their annual rates of increase



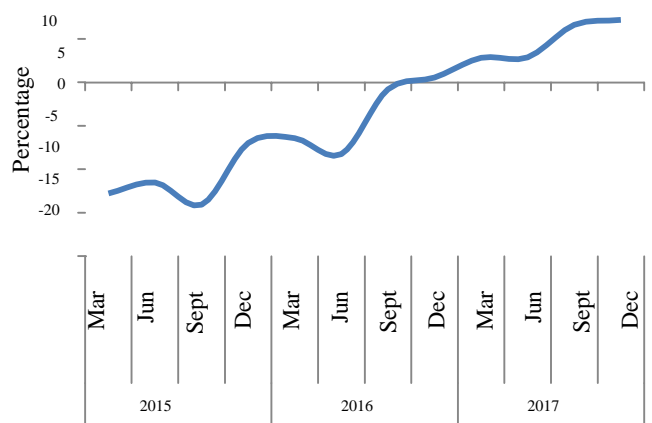
Source: the National Bank's calculations based on the National Statistical Committee's data.

In 2017, the homogeneity of price increases in the consumer market grew up: in December 2017, the share of goods and services, the prices for which had risen by less than 5 percent, on the year-on-year basis totaled 72 percent, compared with 25 percent in December 2016.

2. Import prices and producer prices

In 2017, the increase in import prices accelerated on a year-on-year basis. Producer prices for certain economic activities are growing faster than consumer prices. The most intensive dynamics is characteristic of the production equipment producers' prices, which do not make a direct impact on the consumer market.

Dynamics of average prices of goods import in annual terms (excluding energy)



Source: the National Statistical Committee.

Dynamics of the average goods import prices (excluding energy), on a year-on-year basis, was positive in December 2016 and throughout January-August 2017 averaged 3 percent - 4 percent. At the end of Q3, average import prices accelerated, and in November 2017 were 7.2 percent on a year-on-year basis. However, the dynamics of prices for key import positions in the consumer market has been still comparable with the dynamics of internal prices.

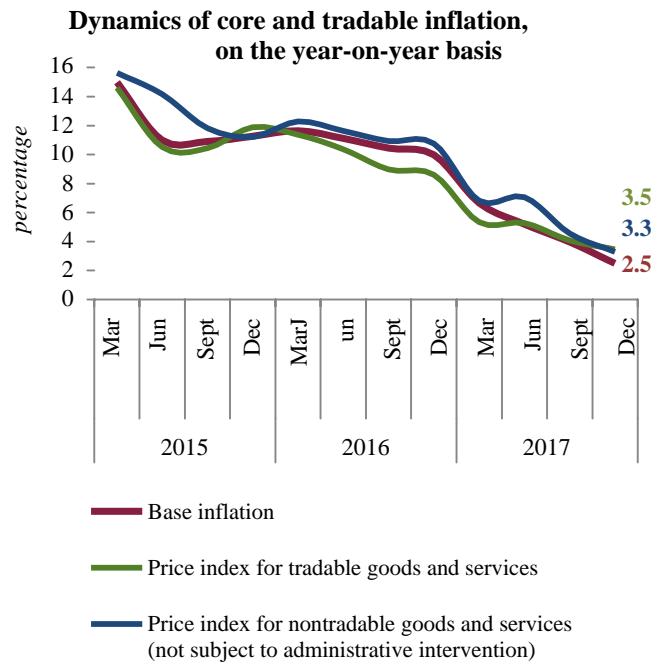
A gradual weakening of the positive impact of external factors on prices in the internal consumer market is also confirmed by the dynamics of tradable inflation ¹.

Thus, against the background of an overall reduction in the average import prices, the tradable inflation throughout 2016 and all the way up to June 2017 was lower than the base inflation.

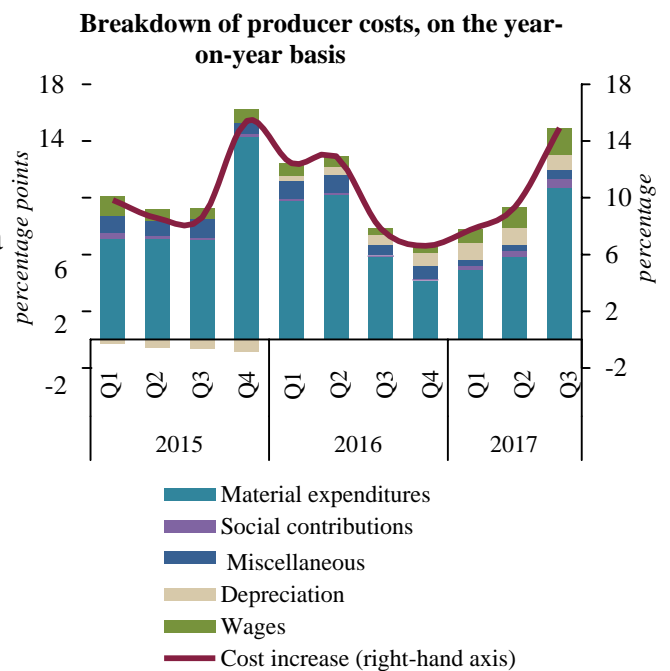
An acceleration in import prices at the end of Q3 against the background of a certain ¹⁰ weakening of the Belarusian rubel contributed to a gradual acceleration of the tradable inflation. Consequently, the tradable inflation for the year as a whole was somewhat higher than the base inflation, totaling 3.3 percent.

The increase in import prices also affected the production sector of the economy through the channel of intermediate imports. The increase in producer costs observed over the year

is mainly related to an increase in material expenditures, while in the structure of producers' material expenditures



Source: the National Bank's calculations based on the National Statistical Committee's data.



Source: the National Bank's calculations based on the National Statistical Committee's data.

¹ The tradable inflation reflects price changes in the internal consumer market under the influence of both external and internal factors. Nontradable inflation reflects price changes due solely to internal factors. For a more objective estimation of the effect of internal factors in the context of analysis, the price index for nontradable goods and services not subject to the administrative price regulation is considered.

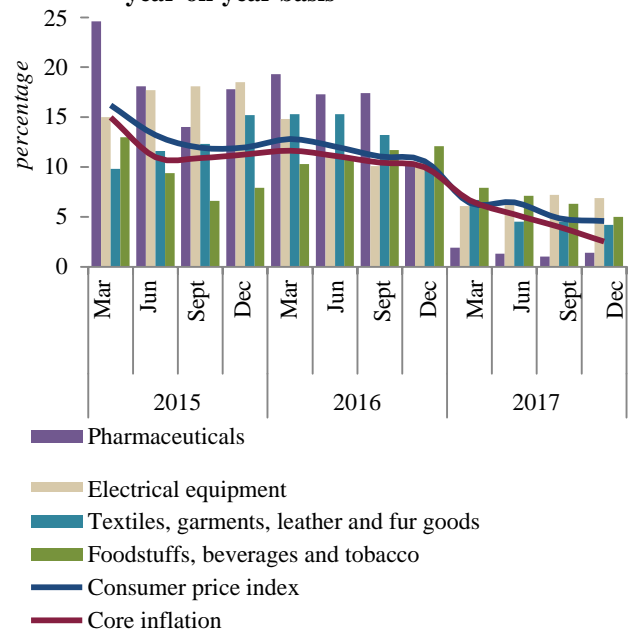
a comparable increase in expenditures for both imported and domestic raw and other materials is observed.

Also, in the structure of production costs over the year, the percentage of wage expenditures increased.

On the whole, the producers' prices are moderate; nonetheless, they are risen faster than the prices in the consumer market. An accelerated price increase is observed, primarily, in production technical goods – 13.7 percent. In December 2017, the prices of the producers of consumer goods went up by 4.6 percent, on a year-on-year basis, which corresponds to the price dynamics in the consumer market.

As a result of the shock of unfavorable

Dynamics of industrial producers prices, on the year-on-year basis

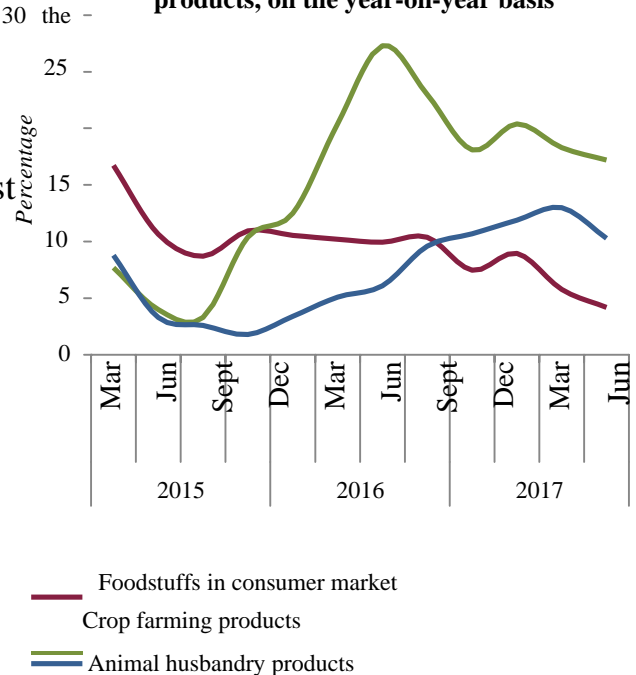


Source: the National Statistical Committee; the National Bank's calculations.

weather conditions, as well as an increase in purchasing prices in agriculture, over the year there was an accelerated increase in prices in both crop farming and animal husbandry: in December 2017 against December 2016, they rose by 17.2 percent and 10.3 percent, respectively. The faster price increases in those industries directly affected consumer prices for fruits and vegetables, as well as milk and dairy products – those increases over the year were 19 percent and 10.2 percent, respectively. The impact on the dynamics of prices for other foodstuffs was moderate.

For 2017 as a whole, the foodstuff prices in the consumer market rose by 4.2 percent.

Price dynamics for producers of agricultural products, on the year-on-year basis



Source: the National Statistical Committee, the National Bank's calculations based on the National Statistical Committee's data.

3. Current economic situation

In 2017, there has been an increase in the economic activity. The basis for economic growth has been an increase in consumer spending on the background of restoration of households' income and expansion of consumer credit.

Positive dynamics of GDP in 2017 was mainly due to an increase in internal demand. At the same time, the restoration over the year of economic activity in the countries - main trade partners contributed to the expansion of external demand. Thus, according to the Eurostat's initial estimate, GDP in the Eurozone rose by

2.5 percent. According to the Rosstat's initial estimate, the Russian Federation's GDP increased by 1.5 percent in 2017.

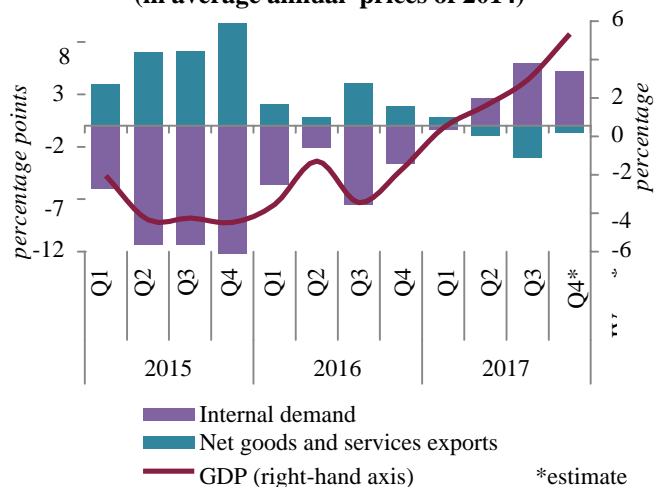
An activation of the economic growth was observed in 2017 Q2, which is chiefly due to an increase in the households' spending on final consumption on the background of increase in wages and consumer lending. Furthermore, starting in 2017 Q3,

for the first time in the past two years, gross savings have made a positive contribution to the overall GDP growth.

In 2017 there was a gradual increase in real wages. In the second half of the year the rate of their increase was faster than that of labor productivity. If wages continue to increase faster than productivity that might contribute to the pressure on inflationary processes in the future.

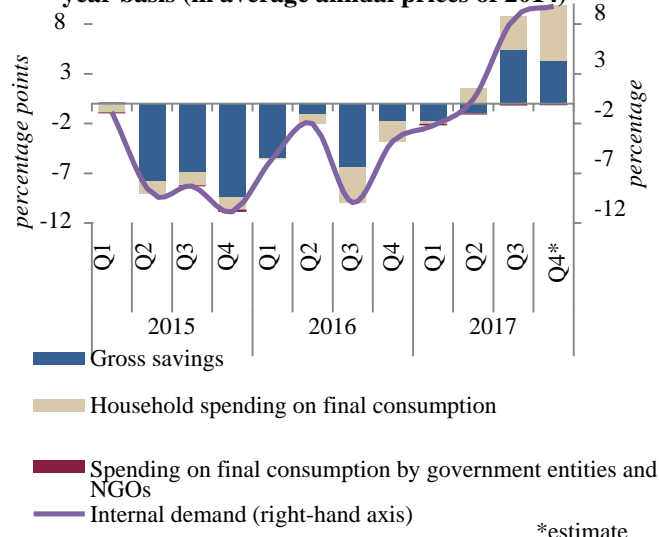
An additional factor in the increase in consumer demand has been

Breakdown of GDP growth, on the year-on-year basis (in average annual prices of 2014)



Source: the National Bank's calculations based on the National Statistical Committee's data.

Breakdown of internal demand, on the year-on-year basis (in average annual prices of 2014)



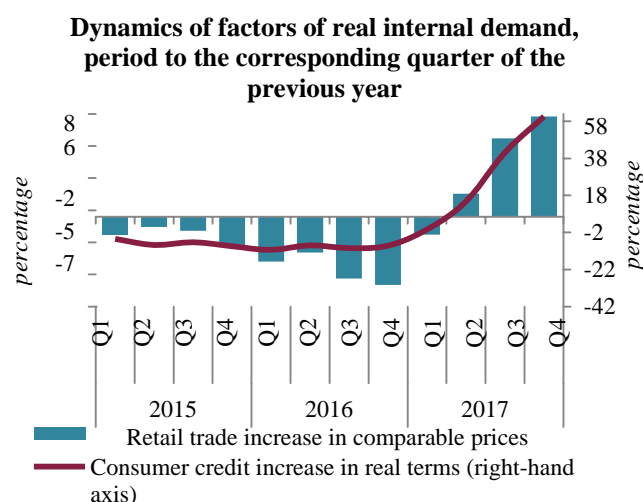
Source: National Bank calculations based on National Statistical Committee data.

Dynamics of real wages and labor productivity, to the corresponding quarter of the previous year



Source: the National Bank's calculations based on the National Statistical Committee's data.

an increase in consumer credit as a result of an increase in the availability of credit resources. Under those conditions, the increase in retail trade has accelerated: in 2017, it rose by 8.3 percent.

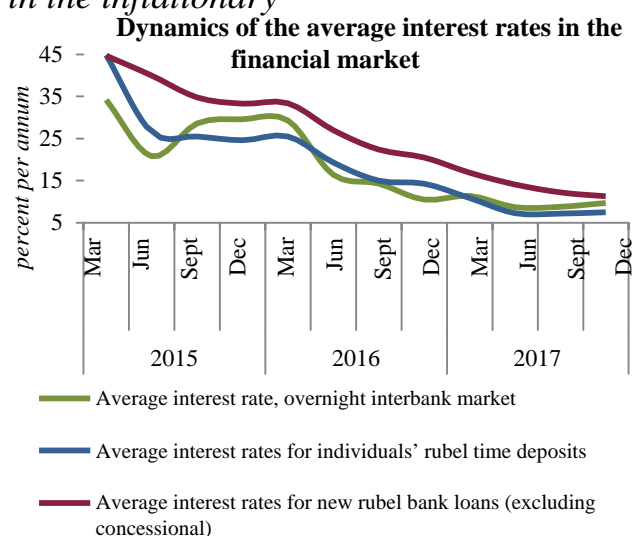


Source: the National Statistical Committee; the National Bank's calculations.

4. Monetary conditions

In 2017, under the conditions of the slowdown in the inflationary processes and the continuation of macroeconomic stability, the National Bank took measures designed to reduce the interest rates in the economy. At the same time, it ensured the required monitoring of changes in the money supply.

In 2017, the refinancing rate was reduced in stages from 18 percent to 11 percent per annum, and annual rates for standing facilities for liquidity support and withdrawal were cut from 23 percent to 12 percent and 11 percent to 8 percent, respectively. In December

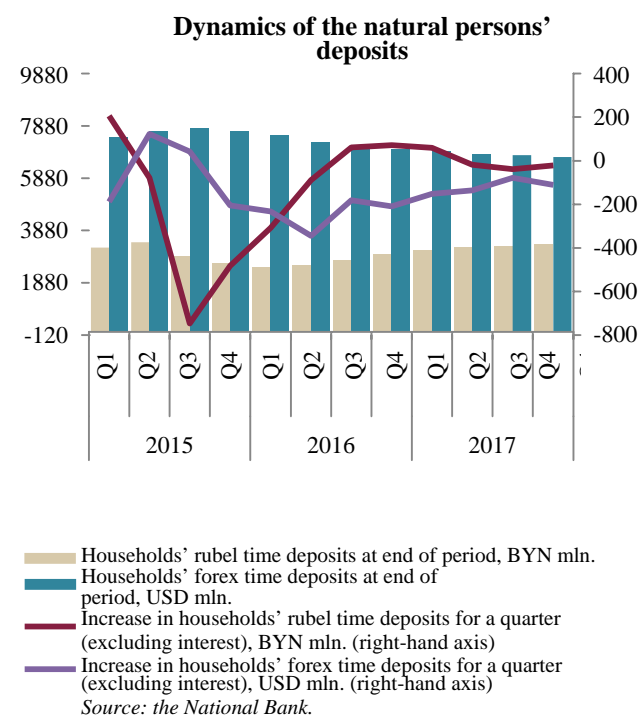


Source: the National Bank.

2017, the average monthly rate in the overnight interbank market was 9.7 percent per annum (10.5 percent in December 2016).

Consequently, the rates in the credit and deposit market declined.

Maintenance of positive interest rates in real terms contributed to the tying-up of the households' monetary funds. On the background of a gradual restoration of households' income, the households' time rubel deposits rose by 13.2 percent in 2017.



Source: the National Bank.

On the background of an increase in the availability of credit resources, lending to the economy (primarily, the long-term one) increased, thereby contributing to the expansion of economic activity in the country. Claims of banks and the JSC “Development Bank of the Republic of Belarus” on the economy grew up by 10.8 percent² in 2017 (by 0.1 percent in 2016). At that, lending in the national currency accelerated over the year from 4.9 percent to 23.4 percent, in foreign exchange went up by 0.4 percent (in the previous year, dropped by 3.5 percent).

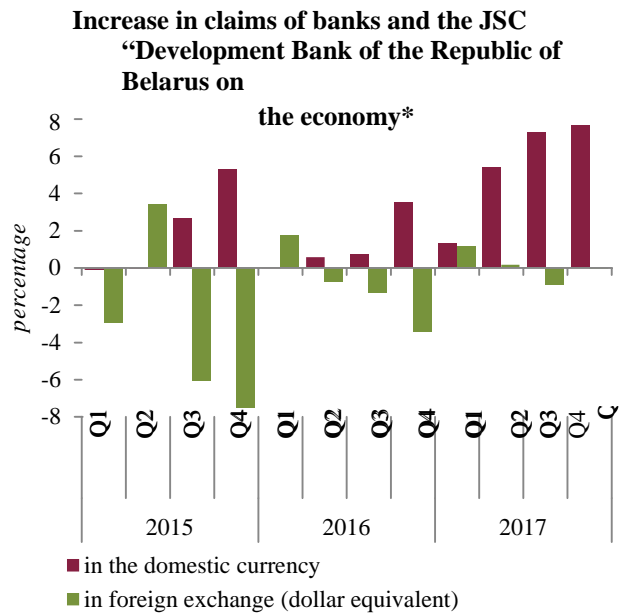
The speeding up of growth of the households’ debt under credits (by 26.7 percent over the year) was observed, particularly of consumer lending (by 75,1 percent), that leads to an increase in the internal demand and consumer imports.

Despite a drop in interest rates in the economy, monetary conditions remain

moderately tight. Overall, current rates of increase in the average broad money supply correspond to the effective demand for money in the economy.

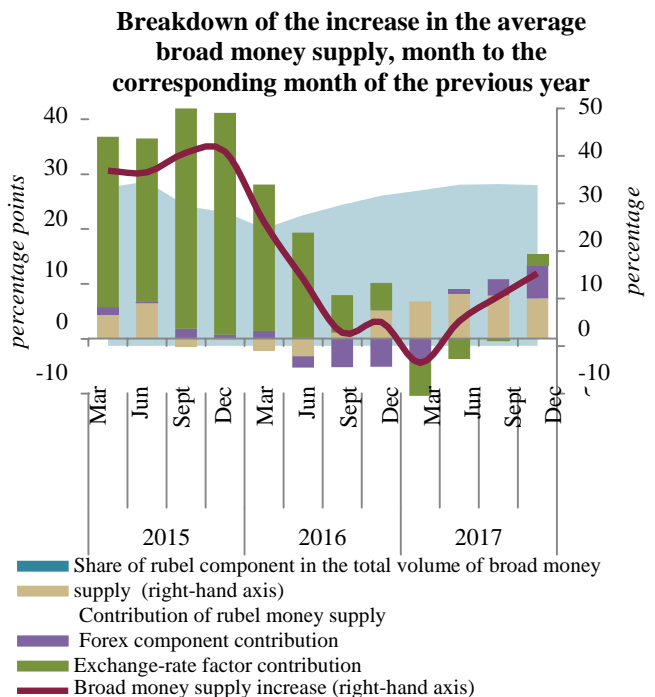
Average broad money increased by 15.3 percent in 2017. Under the influence of the economy dedollarization measures, its ruble component had a faster increase. In annual terms, the increase in the average rubel money supply in December 2017 totaled 23.2 percent.

On the whole, there was a positive change in the structure of the money supply. In December 2017, the share of the forex component in the structure of the average broad money supply dropped by 2.2 percentage points compared with the analogous period



* Excluding debt conversions (of principal and interest) under regulatory legal acts (in 2015 - 2017), and write-offs

Source: the National Bank.

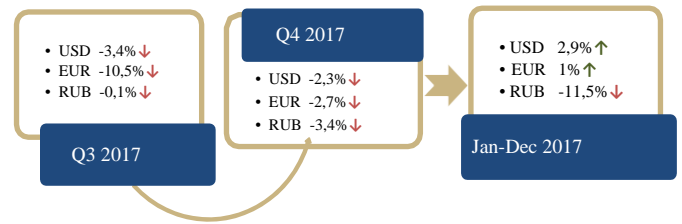


Source: the National Bank's calculations.

²Excluding debt conversions (of principal and interest) under regulatory legal acts (in 2015 -2017), and write-offs.

of the previous year and totaled 66.2 percent.

In 2017, the value of the national currency remained fairly stable. Overall, the impact of the exchange rate factor on the inflation dynamics in the reporting year was insignificant.



Source: the National Bank.