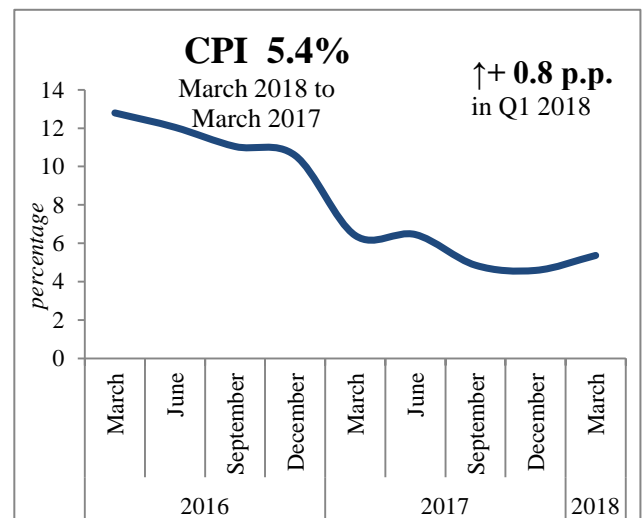


Information on the dynamics of consumer prices and tariffs and factors of changes therein

2018 Q1

In Q1 2018, inflation processes remain within the target trajectory. At that, some acceleration of these processes is noted.

The annual increase in consumer prices in March 2018 totaled 5.4% against 4.6% in December 2017.



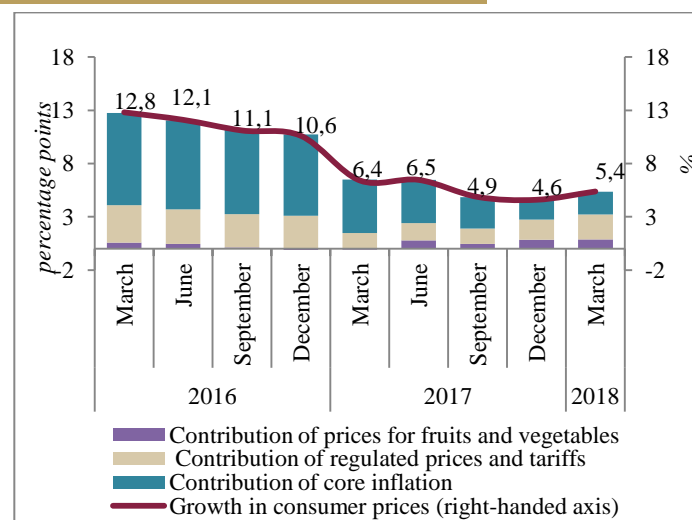
Source: National Statistical Committee

1. Overall change in consumer prices

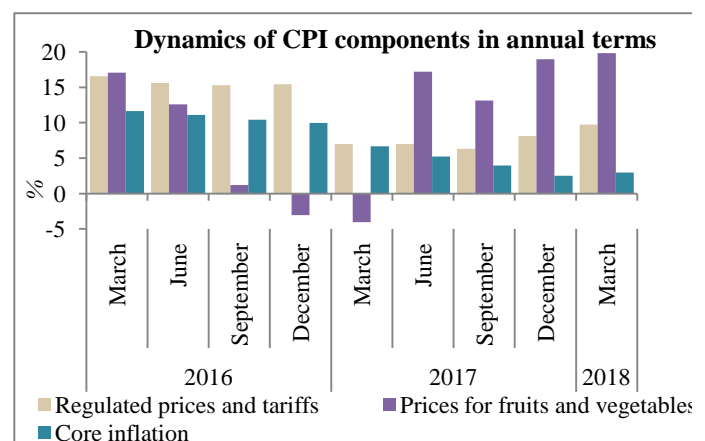
The measures of administrative regulation, as well as the growth in prices in the free pricing segment contributed primarily to the increase in the intensity of inflation processes against the background of the weakening of the aggregate demand's disinflationary influence.

In March 2018, the administratively regulated prices and tariffs, according to the estimation, increased in annual terms by 9.7% (by 8.1% in December 2017). At that, the cost of housing and utilities services raised most rapidly – the annual growth in March 2018 accounted for 18.8%. Excluding the increase in housing and utilities tariffs, the annual growth in other regulated prices and tariffs was estimated at 6.4%.

The annual core inflation accelerated from 2.5% in December 2017 to 3% in March 2018. As domestic demand recovered, the downward pressure of the aggregate demand gradually decreased, as a result of which a monthly growth of the core inflation indicator stood at a higher level in June 2017 and since has remained virtually unchanged. In general, the



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

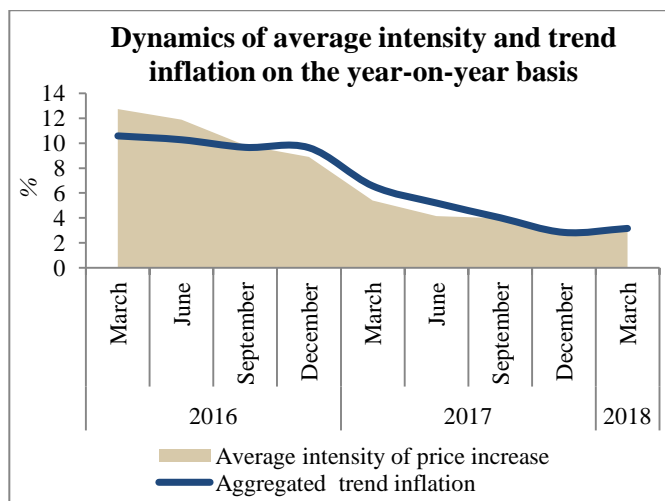
current core inflation dynamics corresponds to the forecast trajectory.

Other indicators reflecting the overall change in prices are characterized by a similar movement trajectory. In March 2018, trend inflation accounted for 3.2% in annual terms, an increase of 0.4 percentage points compared to December 2017. The average growth rate of consumer prices also raised to 3.2%.

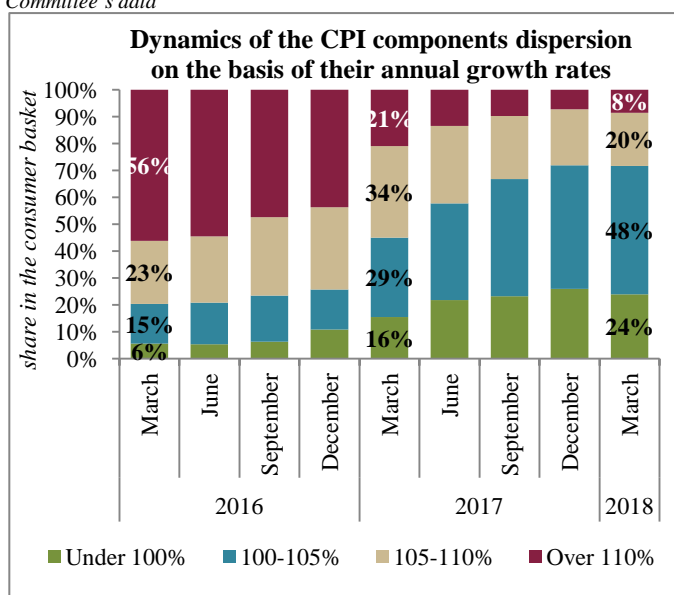
The dynamics of seasonal prices (for fruit and vegetable products) had as a whole a slight effect on the change in consumer prices in annual terms. In March 2018, the annual increase in prices for fruit and vegetable products amounted to 19.8% against 19% in December 2017.

In Q1 2018, the homogeneity of price growth in the consumer market remains quite high: in March 2018, the share of goods and services, the prices for which in annual terms increased by less than 5%, just as in December 2017, stood at 72%. At that, a redistribution within the designated group of goods and services occurred – the share of goods and services, the prices for which did not change or decreased in annual terms, declined, while the share of goods, the prices for which showed an annual growth within 5%, raised. These changes reflect the overall acceleration of consumer prices.

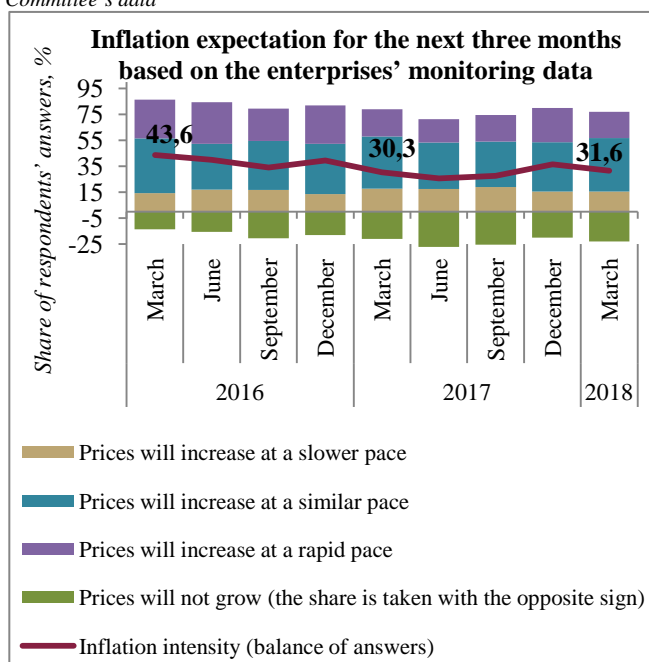
The inflation expectations following the seasonal acceleration in December 2017 slightly decreased. The balance of respondents' answers about the expected inflation level in the next three months (inflation intensity) amounted to 31.6% in March 2018. The estimates of current perceived and expected inflation obtained from the population survey data are slowly decreasing as well. However, the values of these indicators still exceed 10%. (<http://www.nbrb.by/publications/inflationexp>).



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



Source: the National Bank

2. Import prices and producer prices

In Q1 2018, the acceleration of prices of imports of goods in annual terms continued. The prices of agricultural products' producers significantly outstrip the growth of consumer prices, which is reflected in the price dynamics of the food market's individual positions.

The annual increase in the average prices of imports of goods (excluding energy) in February increased to 8.2% compared to 5.7% in December 2017. At that, the main growth is recorded in the prices of intermediate goods, which primarily affects the production sector.

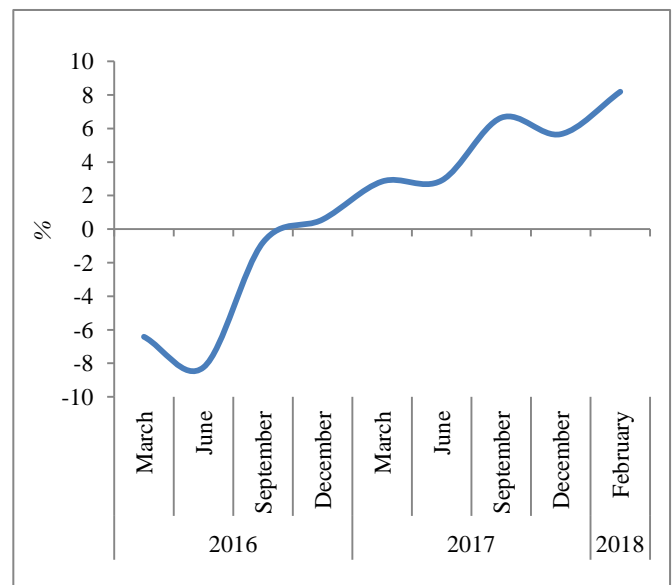
The dynamics of foreign suppliers' prices of key imported consumer goods remains comparable with the dynamics of domestic prices. Acceleration of tradable inflation indicates a gradual weakening of the external factors' restraining influence. In annual terms, this indicator totaled 3.9% in March 2018 (in December 2017 – 3.5%), and continued to outrun the core inflation.

The increase in industrial costs observed during three quarters of 2017 is primarily related to the growth of tangible costs. At the same time, the structure of tangible costs witnessed a commensurate increase in expenditures both for imported and domestic raw and other materials.

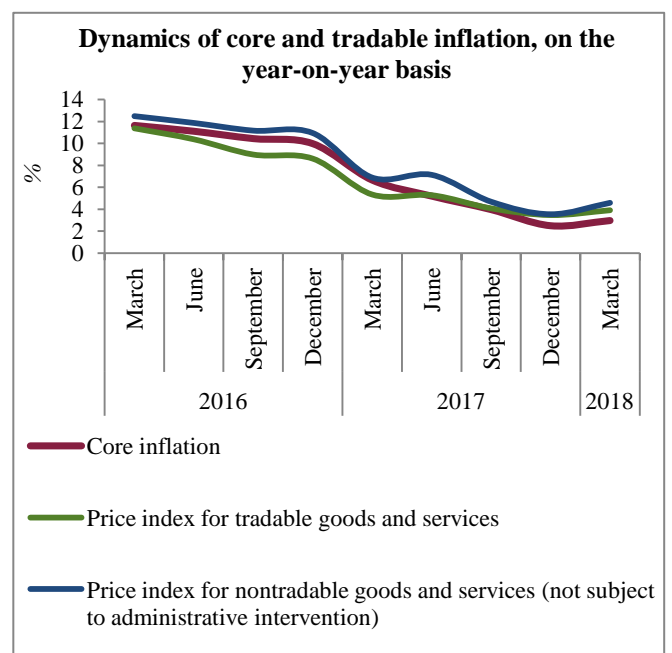
In addition, labor payment expenses increased in the structure of production costs over 2017.

In Q1 2018, the intensity of growth in prices for industrial products decreased. In annual terms, producer price growth slowed down from 13.7% in December 2017 to 6.8% in March 2018, while the monthly price dynamics since December 2017 has remained at the level of 0.4-0.5%.

The prices for industrial and technical goods demonstrated the highest growth rates – 7.4% in



Source: the National Statistical Committee

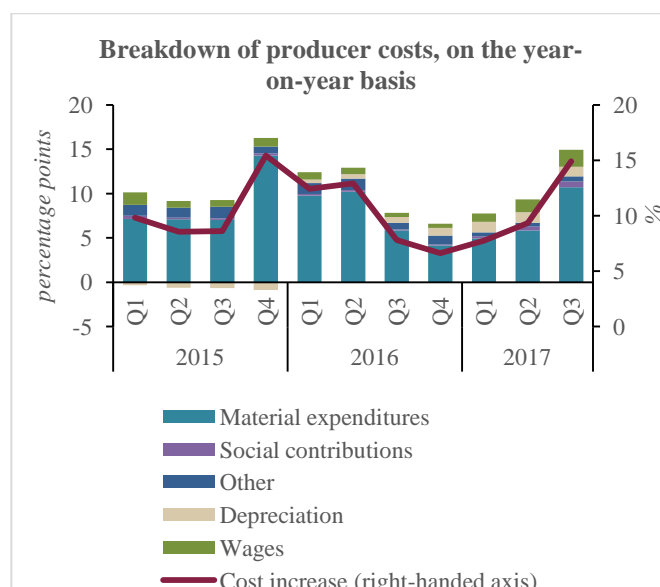


Source: the National Bank's calculations based on the National Statistical Committee's data

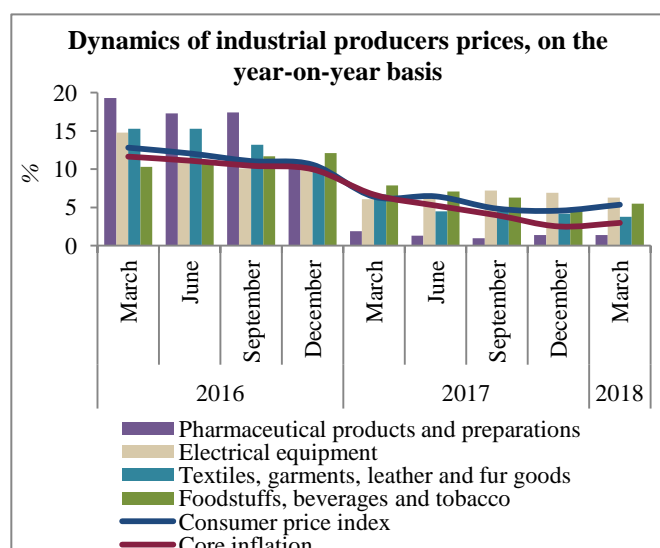
March 2018 to March 2017. The producer prices of consumer goods rose by 4.9% over the year, which in general corresponds to the dynamics of consumer market prices.

The dynamics of prices of agricultural products' producers indicates their further acceleration in both crop farming and animal husbandry sectors. The annual increase in prices for crop production accelerated from 17.2% in December 2017 to 21.8% in March 2018, the animal husbandry sector – from 10.3% to 11%, respectively.

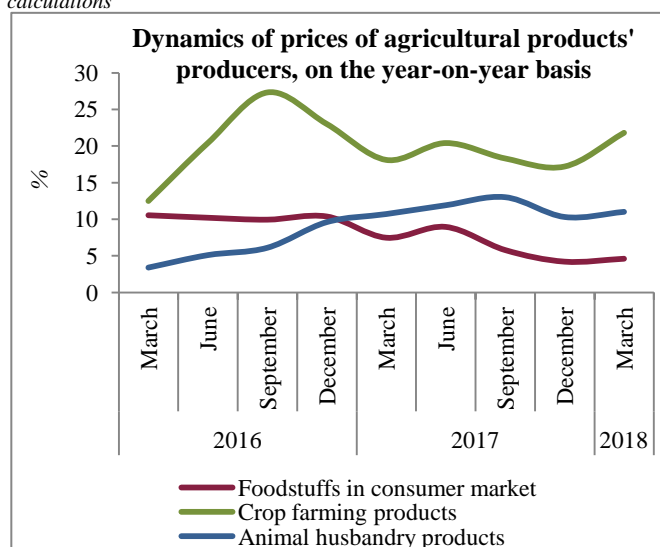
The outstripping price dynamics in these industries had a direct impact on consumer prices for fruits and vegetables, as well as dairy products – the annual increase in March 2018 amounted to 19.8% and 8.6%, respectively. At that, the indirect effect on the dynamics of prices of other food products remains moderate. In general, the annual growth in consumer prices for foodstuffs totaled 4.6%.



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



Source: the National Statistical Committee, the National Bank's calculations



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

3. Current economic situation

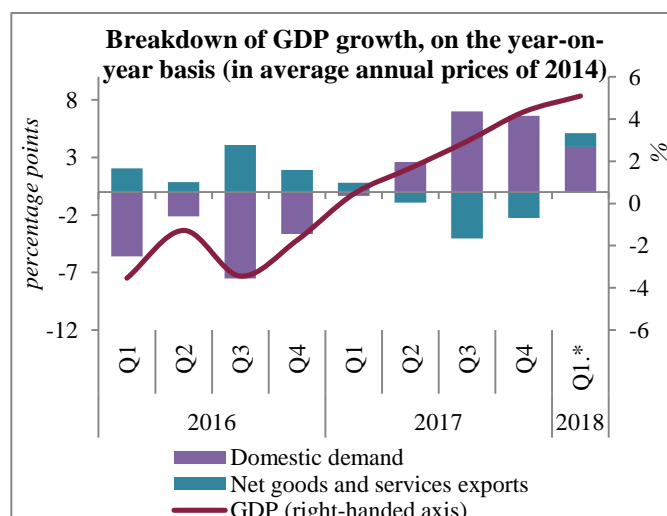
In Q1 2018, economic activity continued to grow. Further increase in consumer spending, as well as the resumption of investment in fixed assets serve as a basis for economic growth.

The positive dynamics of GDP in Q1 2018 is mainly caused by the growth of domestic demand. In addition, the recovery of economic activity in the countries-main trading partners contributes to the expansion of external demand. Thus, according to the Bank of Russia, the GDP growth rate of the Russian Federation in Q1 2018 accounted for about 1.5-1.8 %¹.

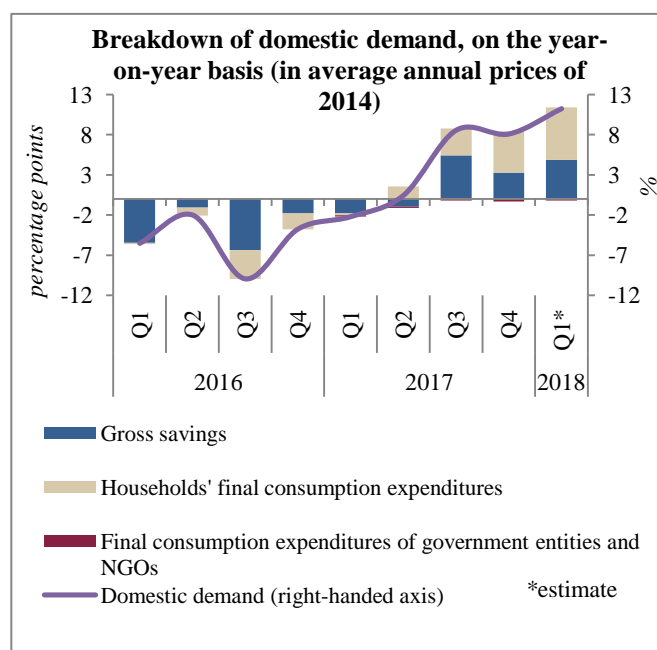
The increase in domestic demand is primarily associated with the growth of households' final consumption expenditures against the backdrop of rising wages and consumer lending. Moreover, an increase in the positive contribution of gross savings to the overall GDP growth is observed.

In Q1 2018, real wages continued to grow in annual terms. At the same time, this upturn is uneven. Thus, the most significant growth is concentrated in a limited list of economic activities (information technologies and activities in the field of information services, air cargo services, production of coke and refined products, mining industry).

The increase in consumer demand, along with the wage growth, is facilitated by the expansion of consumer lending due to the improved price availability of credit resources. As a result, the growth rates of retail turnover accelerate: in Q1 2018, it grew by 9.7% against the corresponding quarter of the previous year.



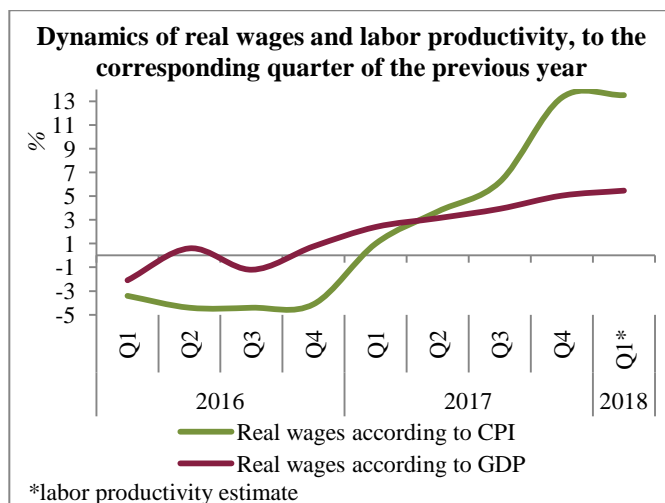
Source: the National Bank's calculations based on the National Statistical Committee's data



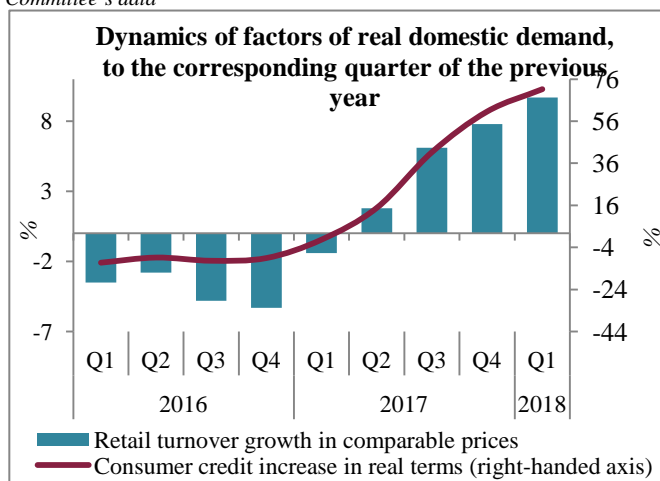
Source: the National Bank's calculations based on the National Statistical Committee's data

¹ Bulletin of the Bank of Russia "Economics: Facts, Assessments, Comments", No. 3 (27), March 2018.

The budgetary policy remains focused on improving the efficiency of public spending and ensuring a deficit-free budget with a view to limiting inflation processes while ensuring the state social obligations. In January-March 2018, the consolidated budget was executed with a surplus.



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

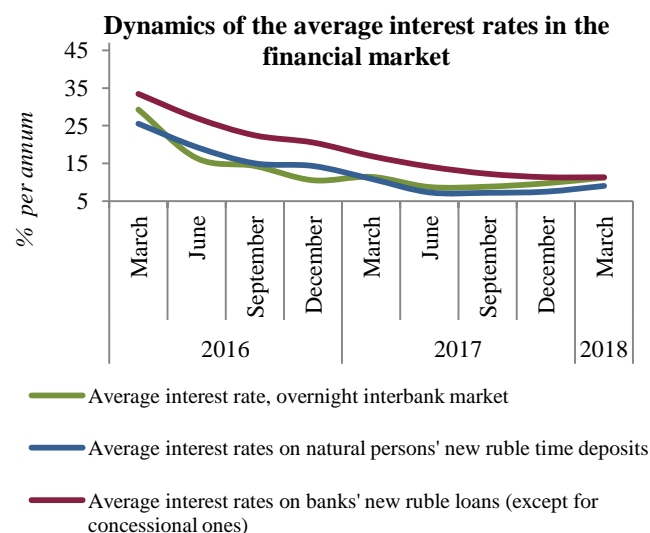


Source: the National Statistical Committee, the National Bank's calculations

4. Monetary conditions

In Q1 2018, a gradual stabilization of interest rates in the economy was observed as a whole, and fluctuations were determined by the current market situation. Dynamics of the broad money supply was slightly higher than the forecast parameters, which is caused by the restoration of business activity in the country, as well as the effect of the low base in the first quarter of the previous year.

On February 14, 2018, the refinancing rate was reduced from 11% to 10.5% per annum, the rate on standing facilities designed to maintain liquidity - from 12% to 11.75%. The liquidity withdrawal rate remained at the level of 8% per annum. In March 2018, the average monthly rate in the overnight interbank market amounted to 11.2% per annum (11.4% per



Source: the National Bank

annum in March 2017).

According to the National Bank's estimations, the current level of interest rates in the money market is "neutral", i.e. it does not exert additional pressure on the level of inflation and additional stimulating impact on economic growth.

A slight increase in the average level of interest rates in the credit and deposit market in Q1 2018 is related to the fact that certain banks, faced with a temporary shortage of ruble liquidity at the end of 2017-early 2018, revised their credit and deposit policy in the retail segment of the market.

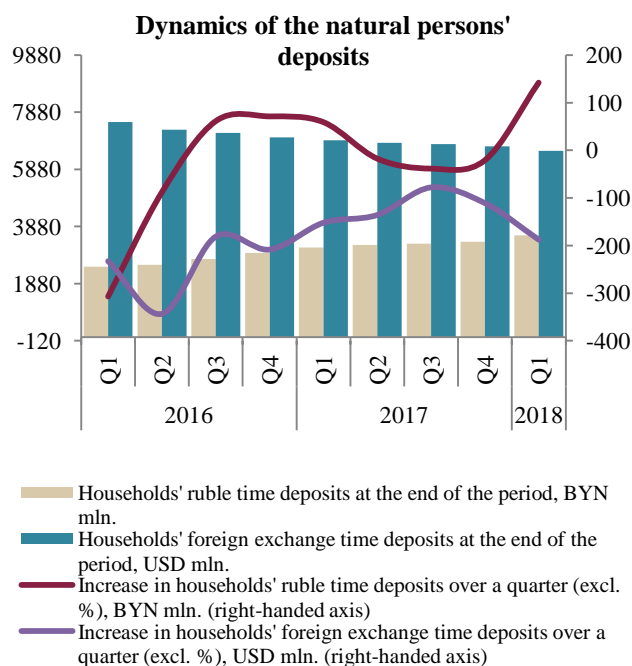
The recovery of the households' incomes along with the growth in interest rates on savings instruments contributed to the increase in the natural persons' ruble time deposits by 13.4% in annual terms as of Q1-end 2018.

Against the background of price availability of credit resources and the restoration of business and investment activity, lending to the economy has increased. In March 2018, the annual growth in the claims of banks and the Development Bank on the economy amounted to 13.4%, including: in the national currency – 24.6%, in foreign exchange in dollar terms – a decrease by 0.1%.

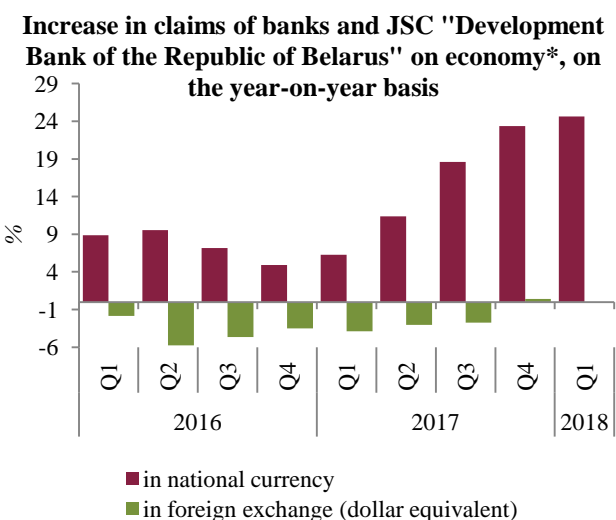
At that, the growth in consumer lending in annual terms totaled 80.5% in March 2018 and had a stimulating effect on the dynamics of domestic demand and consumer imports.

The restoration of rates of lending to the economy led to a fairly rapid increase in money supply: amid a low base of the last year, the average broad money supply in annual terms raised by 17.7% in March 2018.

In addition, due to the implementation of measures to dedollarize the economy, the ruble component of the economy showed a more rapid dynamics. In annual terms, the increase in the average ruble money supply accounted in



Source: the National Bank

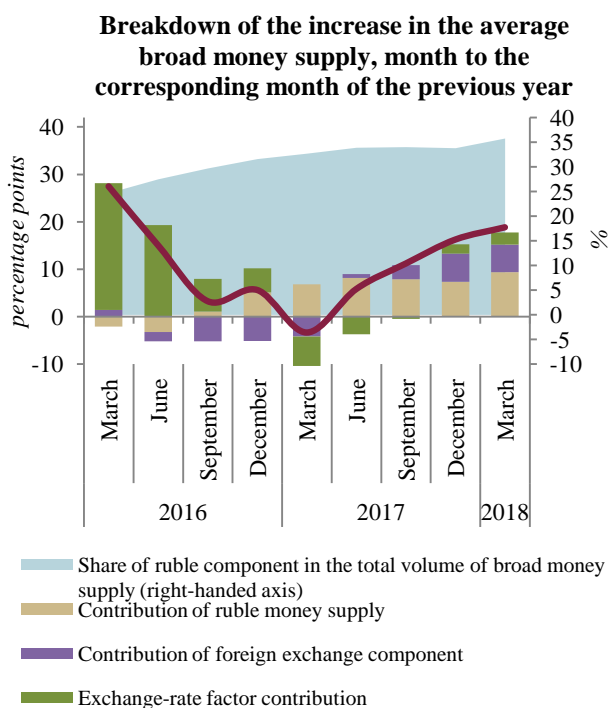


* Excluding debt conversions (on principal and interest) under regulatory legal acts (in 2015 - 2017), as well as write-offs to off-balance-sheet accounts

Source: the National Bank

March 2018 to 28.6%.

In March 2018, the share of the foreign exchange component in the structure of the average broad money supply totaled 64.2% and decreased by 3.1 percentage points compared to the corresponding period of the previous year.



Source: the National Bank's calculations