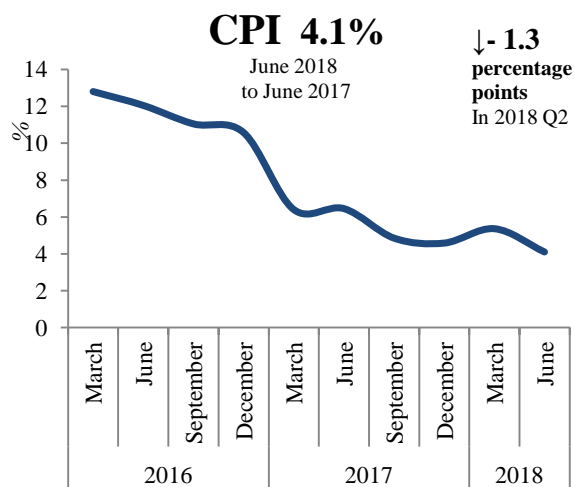


Information on the dynamics of consumer prices and tariffs and factors of changes therein

2018 Q2

In 2018 Q2, the inflation processes slowed down. After its acceleration in Q1 annual inflation dropped to 4.1% in June 2018.

The inflation processes slowed down due to the decline in prices for fruits and vegetables. The core inflation is maintained at a moderate level.



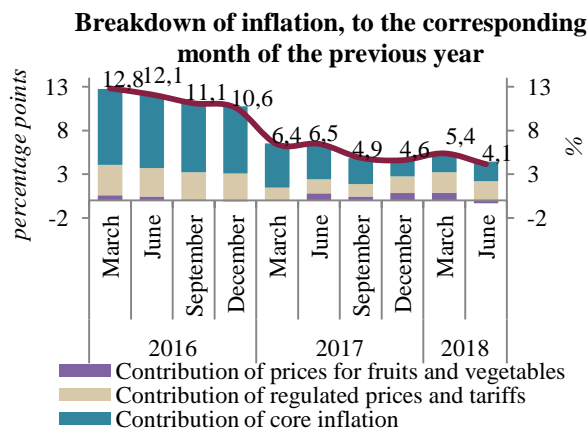
Source: National Statistical Committee

1. Overall change in consumer prices

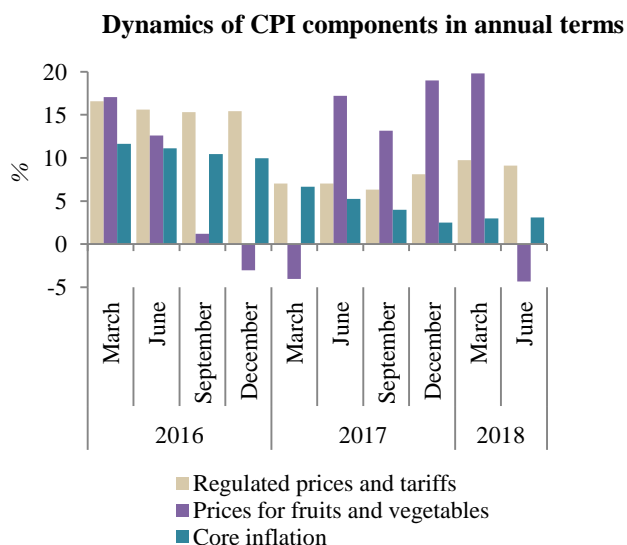
In 2018 Q2, the constraining dynamics of core inflation and administratively regulated prices and tariffs was observed, with seasonal prices (for fruits and vegetables) reducing to a considerable degree in annual terms.

The annual core inflation totaled 3.1% in June 2018 (3% in March 2018). The dynamics of this indicator was formed in 2018 Q2 under the conditions of further weakening of disinflationary impact of domestic demand, on one hand, and strengthening of the Belarusian ruble, on the other hand, as well as low inflation background being maintained in the countries - main trade partners.

Other indicators reflecting the general change in prices evidence the stable price dynamics in the consumer market. Thus, the aggregated indicator of trend inflation has been maintained at the level of 3.2% in annual terms since March 2018. The average intensity of growth in consumer prices has been maintained



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

at the level of 2.8% during the last two months.

Administratively regulated prices and tariffs went up in June 2018 by 9.1% in annual terms (9.7% in March 2018). In 2018 Q2, the main impact on the general change in consumer prices was made by the increase in prices for fuel, communication services and services provided by pre-school establishments (in summer).

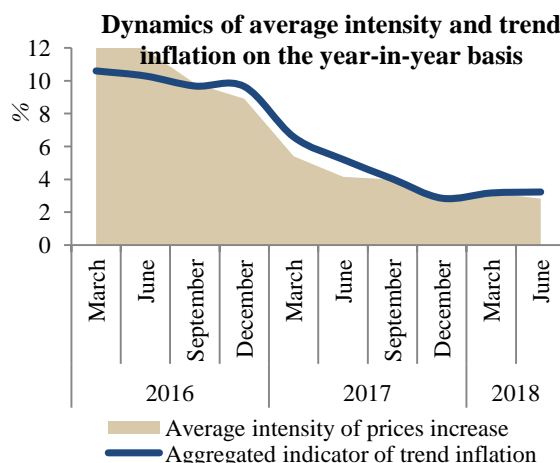
The seasonal prices (for fruits and vegetables) went down in June 2018 by 4.4% versus June 2017 due to the effect of the high base of the previous year (in March 2018 an increment by 19.8% versus March 2017).

For information:

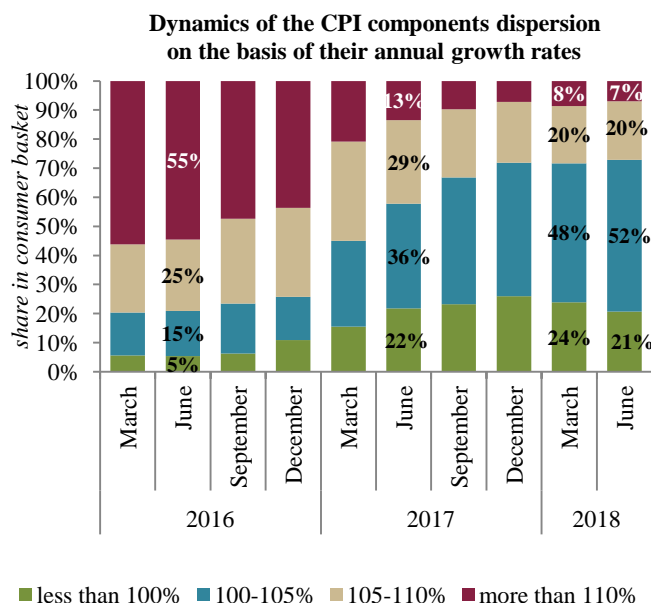
As a result of unfavourable weather conditions shock the prices for fruits and vegetables in April-June 2017 grew by 18.2%.

In 2018 Q2, the positive trends related to an increase in the homogeneity of growth in consumer prices have been preserved. In particular, in June 2018, the annual growth in the majority of positions of the consumer basket (the share totaled 73%) complied with the medium-term inflation target and did not exceed 5%.

The inflation expectations have been gradually decreasing. The assessment of the expected prices growth in the next 12 months, which was obtained based on the data of population survey declined up to 11.4% in May 2018 (11.6% in February 2018). At that, the inflation perceived by respondents during the last 12 months, was evaluated at the level of 12.9% in May 2018 (12.4% in February 2018).



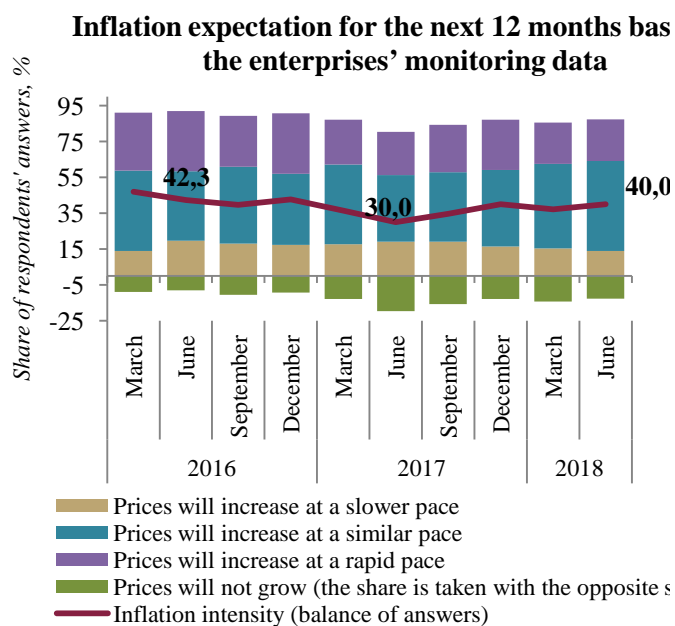
Source: the National Bank's calculations based on the National Statistical Committee's data



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

At the same time, according to the last survey, there was a certain change in consumer attitude: the respondents have less propensity for making big purchases on credit and are more engaged in saving. Strengthening of these trends in consumers' behavior will lead to a gradual slowing down of consumer activities (<http://www.nbrb.by/publications/inflationexp>).

At the same time, improvement of the structure of the enterprises' inflationary expectations has been noted: in June 2018 the share of respondents expecting the maintenance of the moderate rates of consumer prices growth in the coming 12 months increased.

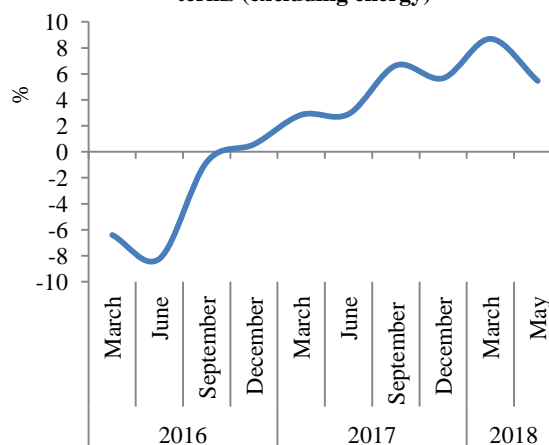


2. Import prices and producer prices

In 2018 Q2, on the background of strengthening of the Belarusian ruble the imported inflation did not make any pressure on the prices of the domestic consumer market. The prices of producers of the consumer industrial products are growing at the rates comparable with that of consumer prices.

Following their acceleration in 2018 Q1, the average prices of goods imports (excluding energy) slowed down in annual terms to 5.5% in May (8.7% in March 2018). The most intensive dynamics is observed in the prices of intermediate goods imports, that affects, primarily, the producers' prices.

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



The average prices of consumer goods imports are, on the whole, characterized by a more moderate dynamics compared with the CPI. At that, in the food segment the growth of prices of imports is significantly lower than the

growth in domestic prices, while in the non-food segment the prices of imports are slightly outstripping the prices in the domestic consumer market. Nevertheless, a potential pressure on the part of importers' prices was evened by the general strengthening of the Belarusian ruble in 2018 Q2 versus the currencies of main trade partners.

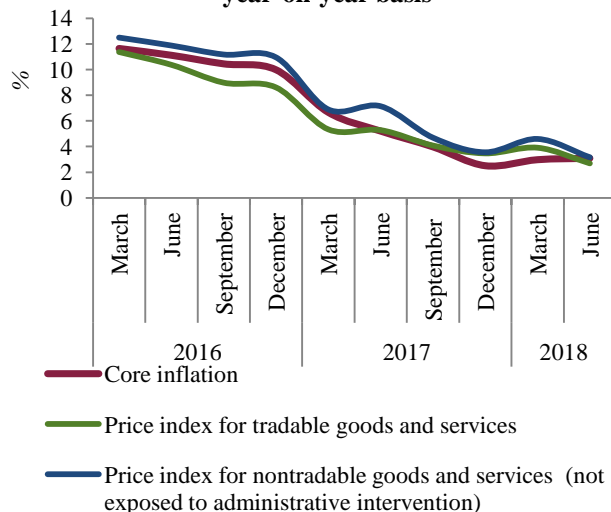
Slowing down of tradable inflation indicates a restraining influence of external factors. An annual growth of this indicator in June 2018 totaled 2.7% (in March 2018 – 3.9%), being lower than the level of core inflation.

Internal factors on the part of supply do not make any pro-inflationary impact as well. The accelerated growth of the producers' costs is accompanied by the comparable growth of the volumes of industrial production and, thus, does not make pressure on the producers' prices. At the same time, in the structure of material expenditures in 2018 Q1 the share of imported raw materials and products went up, that, on the background of high growth rates of importers' prices leads to the growth in the costs as a whole. Besides, due to the increase in the prices for fuel, this expenditure item makes a more significant impact on the general growth of producers' costs.

The dynamics of prices in the production sector does not make considerable impact on the prices in the consumer market. The annual growth of the consumer goods producers' prices dropped over Q2 by 0.4 percentage point, amounting to 4.5% in June 2018, that complies with the path of the consumer prices movement.

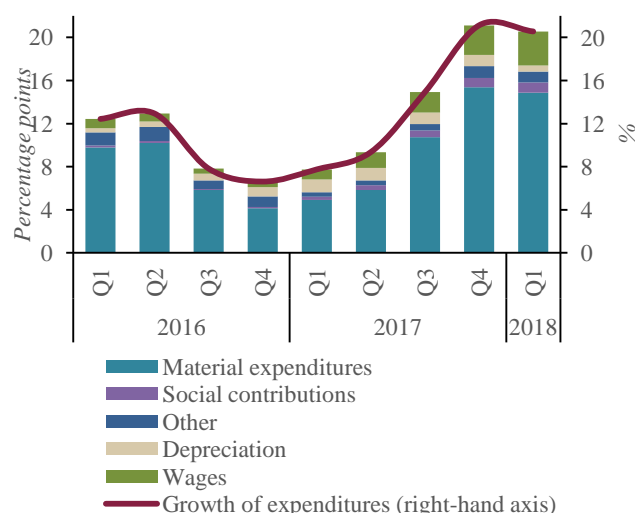
Besides, in 2018 Q2 a decline in the intensity of agricultural producers' prices growth was observed. The annual increment of

Dynamics of core and tradable inflation, on the year-on-year basis



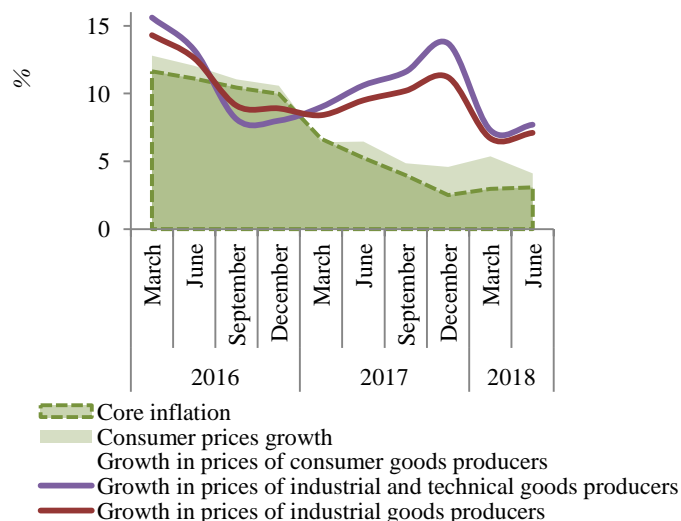
Source: the National Bank's calculations based on the National Statistical Committee's data

Breakdown of producer costs, on the year-on-year basis



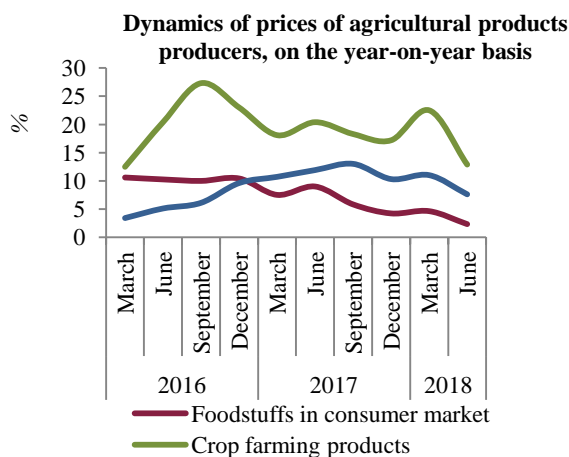
Source: the National Bank's calculations based on the National Statistical Committee's data

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



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

prices for the products of plants cultivation declined nearly twice from 22.5% in March to 12.9% in June 2018. In the livestock sector the producers' prices slowed down to 7.6% (11% in March 2018). The prices for cereal crops grew at the highest rates, which is, on the whole, in line with price situation in the global markets. According to the FAO's data, in June 2018 the annual increment of the global prices for cereal crops totaled 7.7%, with the general decline of prices for foodstuffs by 0.9%.



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

3. Current economic situation

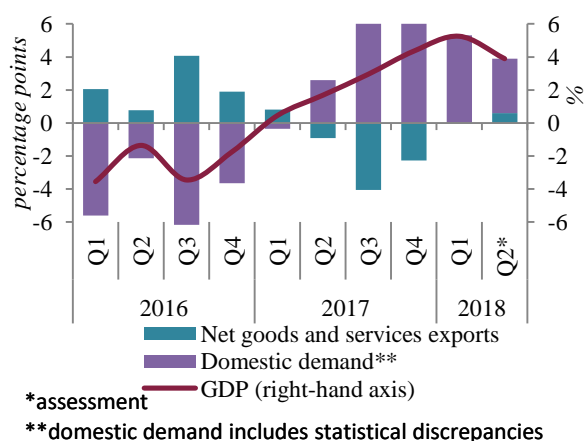
Despite a certain slowing-down, the rates of economic growth remained rather high. As a result, in 2018 Q2, the disinflationary impact on the part of economic activity, practically, ceased.

Domestic demand, both the consumer and the investment one (at the expense of internal sources), continues to be the basis of economic growth. In 2018 Q2, the growth of investments slowed-down. High consumer demand is maintained by further increase in wages and expansion of consumer lending.

In 2018 Q2, the growth of real wages slowed-down in annual terms, with its inhomogeneity being still in place. A significant increment is observed in separate types of economic activity only. In such conditions the impact on inflationary processes on the part of this factor is a constraining one.

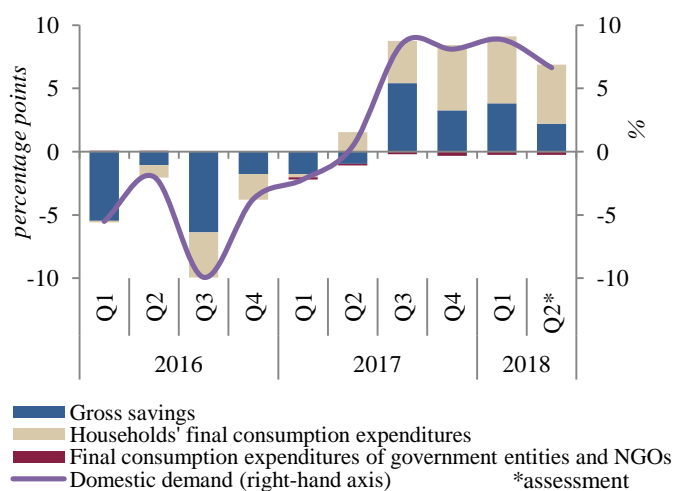
During the last three quarters the dynamics of consumer demand has been maintained at a steadily high level. The annual increment of real retail goods turnover in 2018 Q2 totaled 10.1%. At that, in the structure of

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 domestic demand, 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

retail turnover the volumes of sale of non-foods of the long-term consumption are growing at the highest rates, which is a result of realization of deferred demand. At the same time, the intensity of consumer lending growth is declining: in Q2 the annual increment totaled 69.7% (80.5% in Q1).

In 2018 Q2, the constraining impact of the budgetary policy on the inflationary processes is still in place. In 2018 H1, the consolidated budget ran a surplus in the amount of 5.6% of GDP, while in 2018 Q1 the surplus totaled 5.4% of GDP. Additional incomes of the budget did not lead to a significant increase in expenses. The real revenues of the consolidated budget in 2018 Q2 went up by 10.3% in annual terms, being significantly higher than the growth of expenses of the consolidated budget, adjusted for the value of budgetary credits and loans (3%).

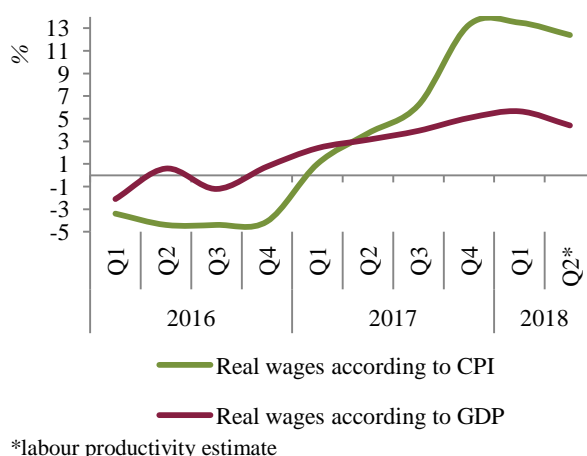
The tax policy measures did not make any considerable influence on the change of consumer prices in the period under review. The effect from the increase in the excise rates since January 1, 2018 and indexation of taxes, on which the fixed tax rates are set, was, to a great extent, realized in 2018 Q1. In 2018 Q2, the excise rates were not changed.

4. Monetary conditions

Monetary conditions in 2018 Q2 were close to neutral ones and, on the whole, contributed to the attainment of the inflation target. Broad money supply was in line with the forecasted parameter of the intermediate target.

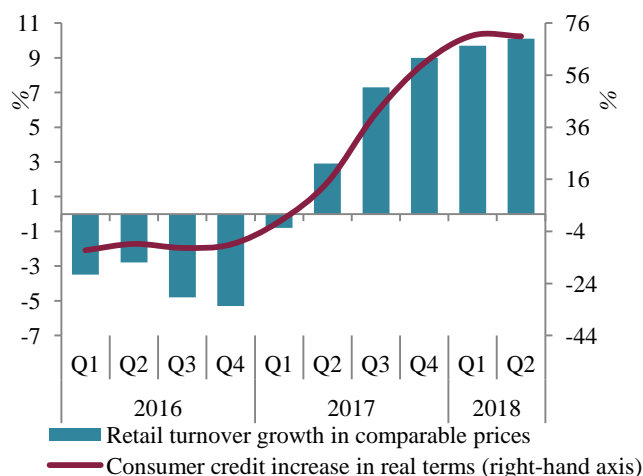
On June 27, 2018, the refinance rate was reduced from 10.5% to 10% per annum; the rate on standing liquidity support facilities – from 11.75% to 11.5%. The liquidity withdrawal rate was maintained at the level of 8% per annum.

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



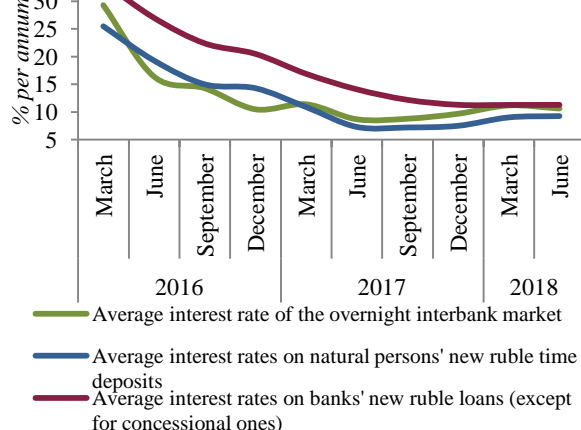
Source: the National Bank's calculations based on the National Statistical Committee's data

Dynamics of factors of real domestic demand, to the corresponding quarter of the previous year



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

Dynamics of the average interest rates in the financial market



Source: the National Bank

The monthly rate of the intraday interbank market averaged 10.6% per annum in June 2018 (11.2% per annum in March 2018).

The need to maintain the acceptable liquidity level encourages banks to attract households' monetary funds. As a result, the interest rates in the deposit market grew to a slight extent versus Q1, while the interest rates in the credit market did not change.

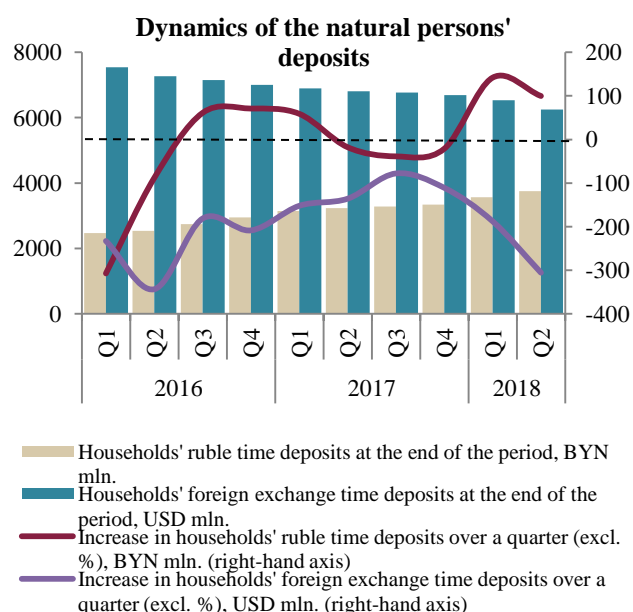
A higher yield on ruble saving instruments is still binding households' monetary incomes. In 2018 Q2, the households' time ruble deposits went up by 16.1% in annual terms (13.4% in Q1).

Anchoring of interest rates in the credit market at, approximately, the same level led to a less intensive dynamics of crediting in the current year.

The annual growth of the banks' and the Development Bank's claims on the economy¹ in June 2018 totaled 12.1%, including: in the national currency – 23.6%; in foreign exchange in dollar terms – a decline by 0.8%.

As far as provision of credits to the economy slowed down, the rates of money supply growth declined. The growth of average broad money supply in annual terms in June 2018 totaled 11.2%, with the established target being 9% - 12% (December 2018 to December 2017).

At that, the structure of broad money supply continues to improve due to the measures being



Source: the National Bank

Increase in claims of banks and JSC "Development Bank of the Republic of Belarus" on the economy¹, on the year-on-year basis



Source: the National Bank

¹ Excluding transformations of indebtedness (on the principal debt and interest) within the regulatory legal acts (in 2015 – 2017), as well as withdrawal to the off-balance accounts.

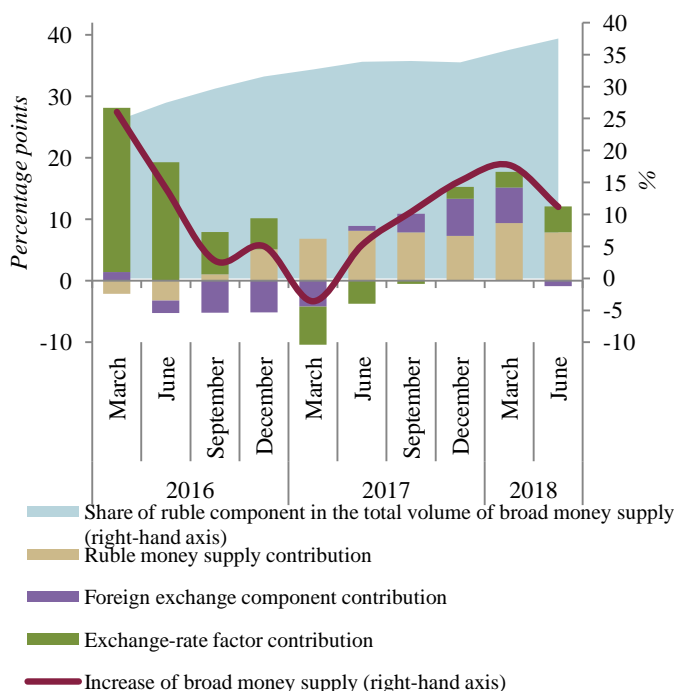
taken within dedollarization of the economy.

In annual terms, the growth of annual ruble money supply totaled 23.2% in June 2018.

The share of foreign exchange component in average broad money supply totaled 62.5% in June 2018, having dropped over 2018 Q2 by 1.7 percentage points.

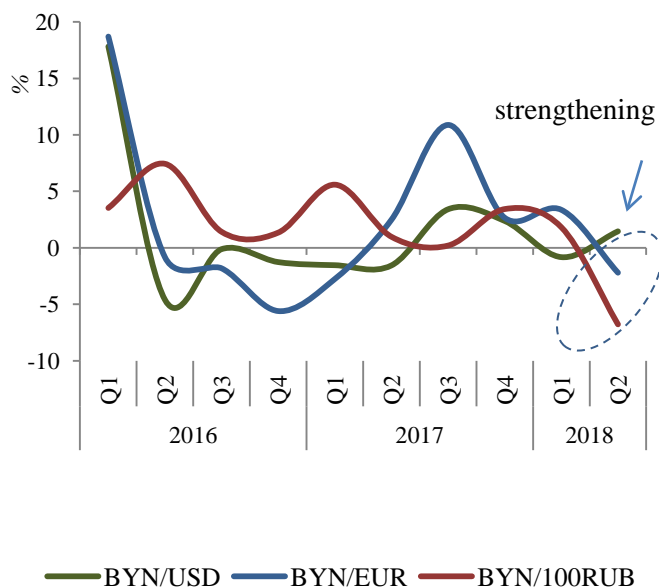
Strengthening of the Belarusian ruble versus the currency basket was one of the key factors constraining the growth of prices. The average weighted exchange rate of the Belarusian ruble versus the Russian ruble went up by 6.8%, versus the euro – by 2.2%, and versus the US dollar dropped by 1.5%.

Breakdown of the increase in the average broad money supply, month to the corresponding month of the previous year



Source: the National Bank's calculations

Dynamics of the average weighted rate of the Belarusian ruble, quarter to the previous quarter



Source: the National Bank