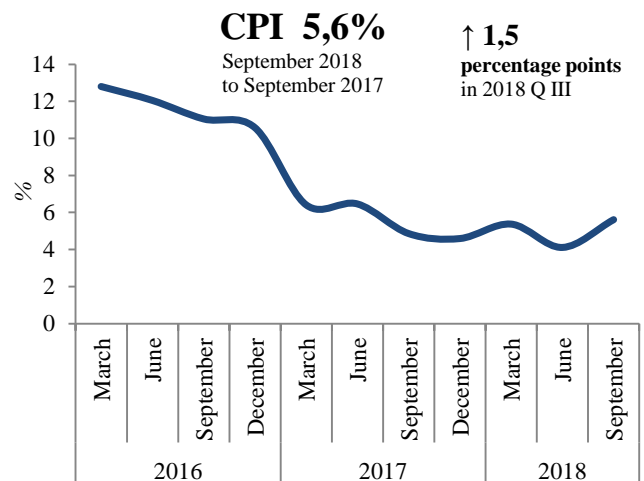


Information on the dynamics of consumer prices and tariffs and factors of changes therein

2018 Q3

In 2018 Q3, intensity of the inflation processes increased: in September, the annual growth of the consumer prices totaled 5.6%.

Despite higher rates of growth in the main price indicators, the overall trajectory of the consumer prices movement remains within the target.



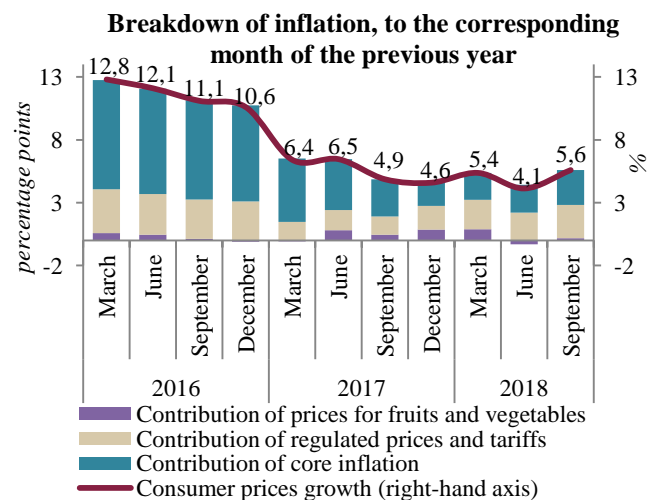
Source: National Statistical Committee

1. Overall change in consumer prices

In 2018 Q3, the dynamics of all the CPI components – core inflation, regulated and seasonal prices— contributed to the increase in the consumer prices growth rates in the annual terms.

In September 2018, administratively regulated prices and tariffs grew by 10.8% in the annual terms (in June – by 9.1%). The increase in the annual growth of the regulated prices in 2018 Q3 was mainly due to the increase in the prices for fuel, as well as the increase in the cost of higher education and telecommunications.

The annual core inflation totaled 3.9% in September 2018, (3.1% in June 2018). The increase in the intensity of this indicator's dynamics in Q3 was conditioned by a number of factors.



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

The acceleration of the core inflation was mainly influenced by the market shock at the meat products market. The failure of grain crops, decrease in the separate kinds of cattle, continuing growth of prices for fuel, depreciation of the Belarusian ruble and, as a consequence, the growth in the inflationary expectations of manufacturers contributed to the increase of retail prices for the manufactured products.

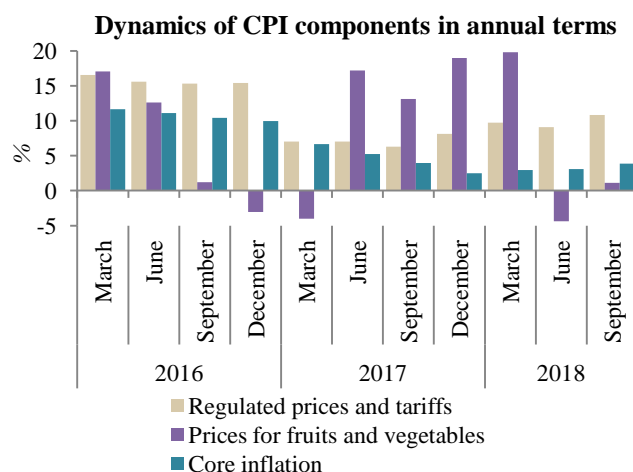
The low crop of grains of the current year is typical for the whole global economy and bears inflationary risks. For the consumer market this means the growth of prices for groceries, where grains have a large share in the structure of production costs. First of all, these are meat products, eggs, flour, bread, cereals. It is expected, that the influence of this factor for the price dynamics will remain until the end of the next year.

The increase in the inflationary processes' intensity was additionally caused by the cease of curbing influence of disinflationary factors that had taken place earlier (low consumer activity, accelerated decrease of the inflationary expectations against the level of 2015-2016) while the economy was recovering.

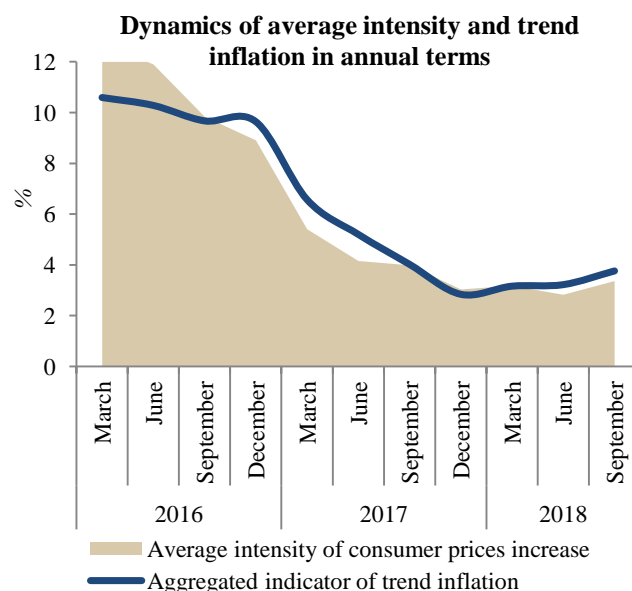
The values of the price indicators cleaned up from the influence of shocks having short – term character are adjusted towards the higher level. In September 2018, the aggregate indicator of the trend inflation in the annual terms accelerated up to 3.8%. Average intensity of the growth in consumer prices amounted to 3.4%.

At the same time, a slight decrease in the homogeneity of growth in the consumer market prices is noted. In 2018, the share of goods and services, the annual growth in prices and tariffs for which does not exceed 5%, totaled 69% (73% in June 2018).

In 2018 Q3, the inflationary expectations increased against the depreciation of the



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

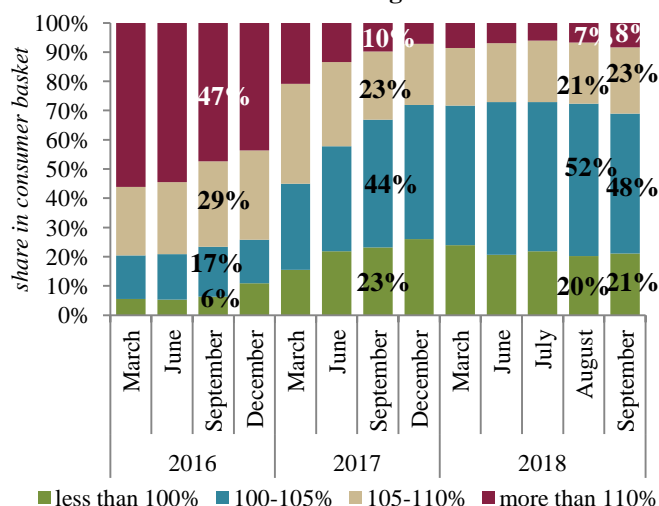


Source: the National Bank's calculations based on the National Statistical Committee's data

Belarusian ruble and the increase in the prices for fuel. The assessment of the expected prices growth in the next 12 months, which was obtained based on the data of population survey totaled 11.7% in August 2018, which is higher than the level of the previous assessment by 0.3 percentage points. At the same time, inflation over 12 months perceived by the respondents decreased and amounted to 12.5% in August against 12.9% in May 2018.

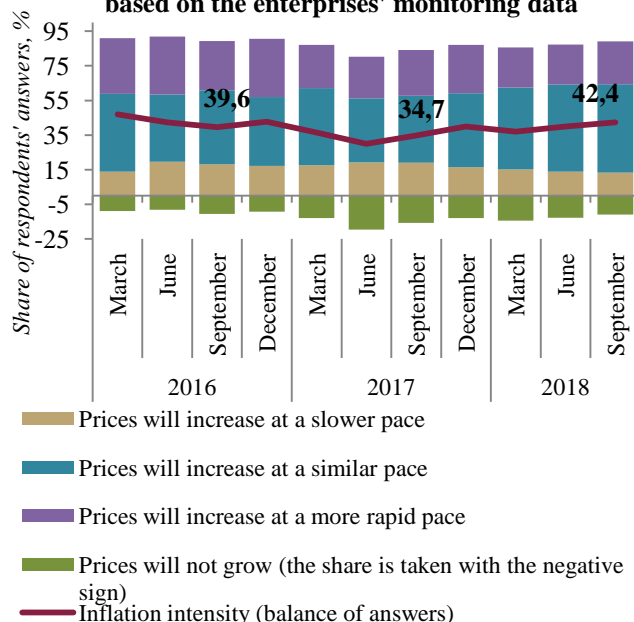
Inflationary expectations of enterprises also grew: in September 2018, the share of the respondents who expect the acceleration of growth of the consumer prices in the next 12 months grew up to 24.6% (23.3% in June 2018).

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

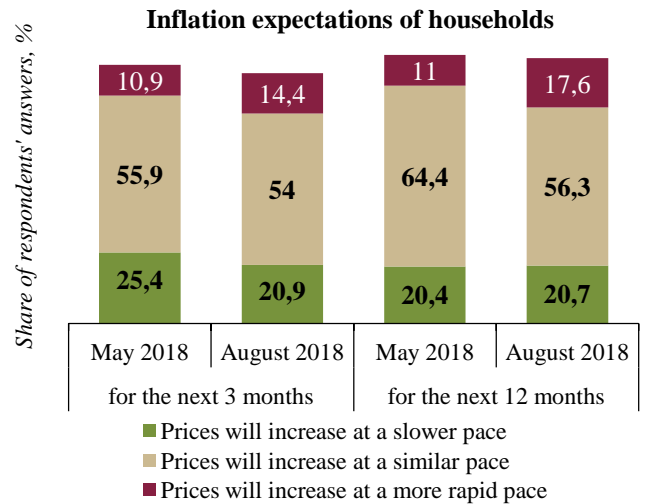


Source: the National Bank's calculations based on the National Statistical Committee's data

Inflation expectations for the next 12 months based on the enterprises' monitoring data



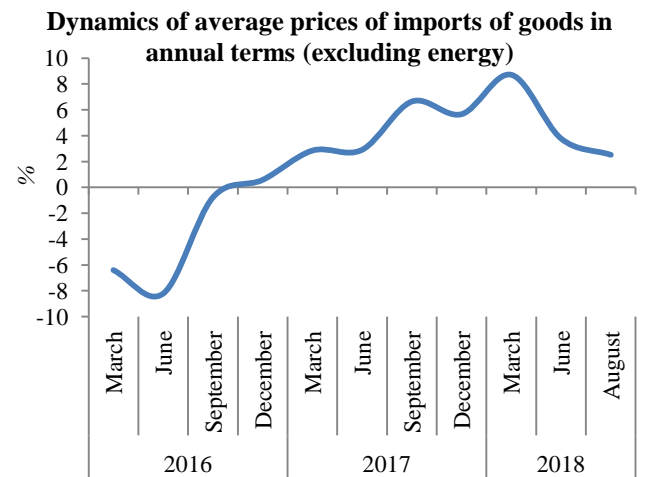
Source: the National Bank



Source: the National Bank

2. Import prices and producers prices

In Q3 2018, imported inflation did not have significant influence on the change of the domestic consumer prices. The prices of industrial products' producers were characterized by a moderate dynamics and also did not have pressure on the consumer prices. At the same time, the accelerated growth in the prices of separate kinds of agricultural products formed by producers contributed to the growth in prices for consumer market.



Source: National Statistical Committee

Average import prices for products (without account of the energy supply prices) are characterized by a moderate dynamics. In August 2018, their annual growth amounted to 2.5%, having decreased by 1.3 percentage points over the two months of Q3. This partially compensated the influence of the exchange rate factor. Thus, in general, the imported inflation had a neutral influence on the domestic prices dynamics.

In 2018 Q3, tradable inflation slightly accelerated against as growth rates of prices increased in Russia. In September 2018, the annual growth of the indicator totaled 3.5% (in June 2018 – 2.7%). Nevertheless, its level

continues to be lower than the level of core inflation. At the same time, the prices for non-tradable goods and services (without taking into account the regulated ones), the dynamics of which is mainly formed under the influence of domestic factors, accelerated. First of all, it is connected with the growth of prices for pork.

For information: starting from 2015, the volumes of export and import of pork significantly decreased and amount to less than 10% of the production volume. Thus, pork is included into the non-tradable goods.

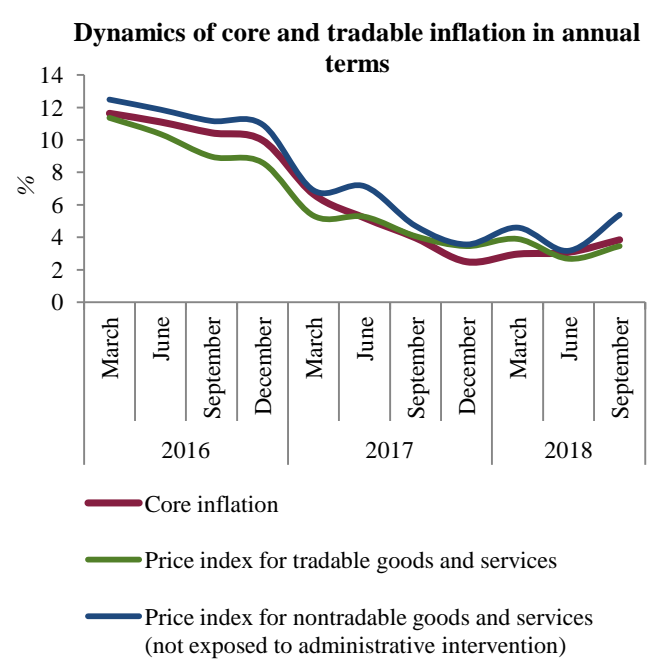
In general, annual rates of growth in prices formed by the manufacturers remained at the level of the previous quarter: in September 2018, annual growth amounted to 7.1.% against 7% in June 2018. With that the growth in prices for consumer goods decreased by 0.6 percentage points over the quarter and totaled 3.9% in September 2018 against the September 2017.

The growth in prices of agricultural products manufacturers in general continues to decelerate. Annual growth of price for crop-farming products decreased from 13.2% in June to 10.9% in September 2018. In animal-farming the prices of manufacturers decelerated to the level of 4.6% in annual terms (7.6% in June 2018).

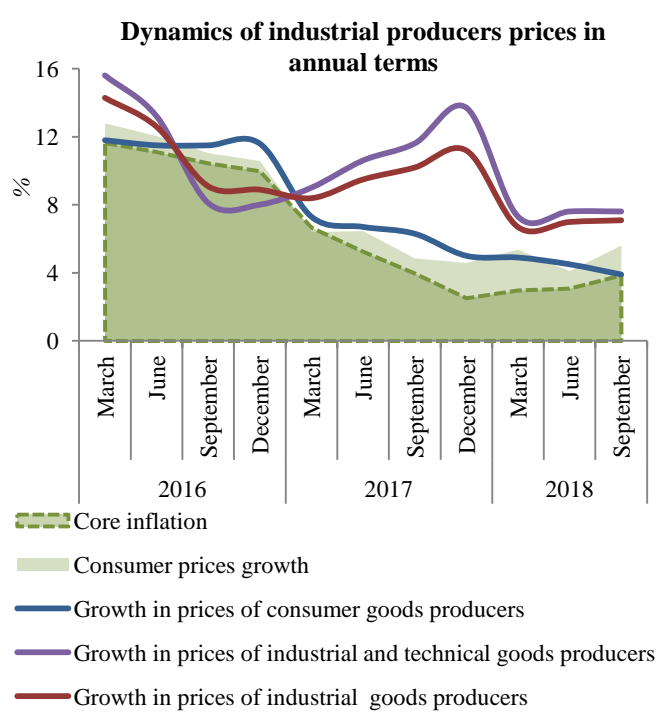
At the same time, the prices of manufacturers of grain crop are increasing rapidly. These prices grew by more than 10% over 2018 Q3. Annual growth in September 2018 amounted to 27.9%.

In the global market, the prices for grain crop also show the outstripping growth compared to other commodity positions. In September 2018, annual growth of prices for grain crops amounted to 8.8% with the total decrease of prices for food products by 6.7%, according to FAO.

In animal-farming, Q3 showed the accelerated growth for prices for pigs and

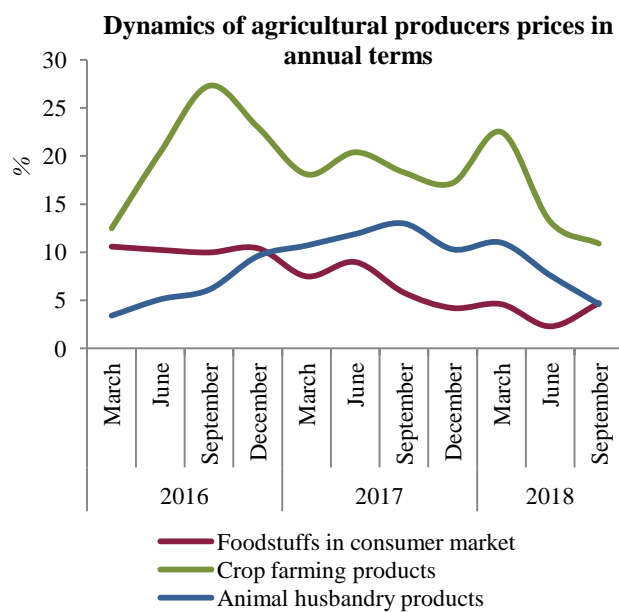


Source: the National Bank's calculations based on the National Statistical Committee's data



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

chicken eggs. In September 2018, annual growth in prices for pigs amounted to 5.8%, having increased by 2.9 percentage points over the quarter. Prices for eggs grew by 5.2% in annual terms (0.6% decrease in June 2018).



Source: National Statistical Committee

3. Current economic situation

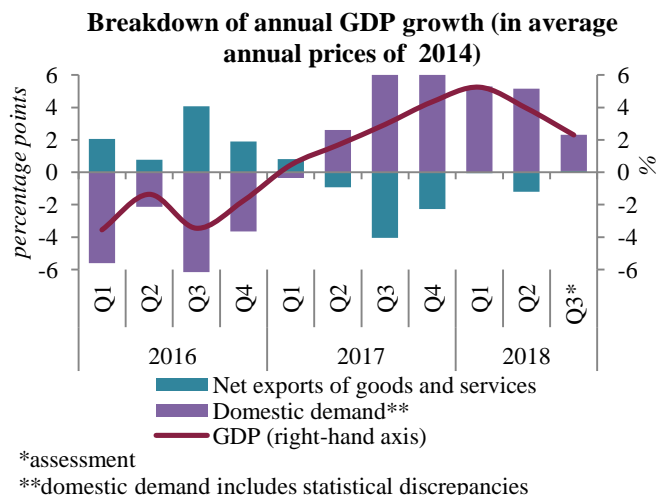
In 2018 Q3, the slowdown of the economic growth continued due to the decrease of the investment demand in first turn and consumer demand less markedly. The influence on the inflation from the side of the economic activity is assessed as neutral in general.

In the quarter under review, the rates of growth in real wages were further decreasing in the annual terms. While the delayed demand is running out, the growth of consumer lending and households' activity in the consumer market is slowing down. At the same time their level remains quite high, which may bring additional inflation risks. In September 2018, annual growth of consumer loans totaled 57.1% (69.7% in June 2018). Growth in real retail turnover in Q3 amounted to 7.5% against the corresponding quarter of the previous year. With that, the structure of retail turnover preserves a fairly high share of imported goods, first of all, in the non-food segment.

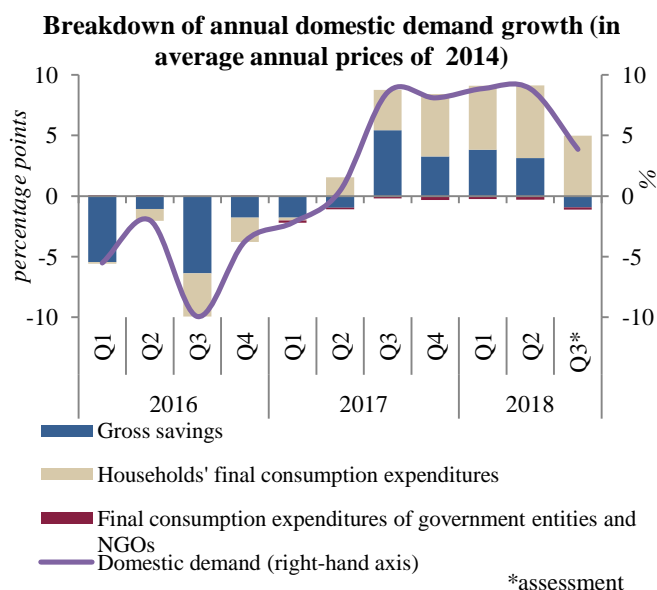
Volumes of import show the outstripping growth compared to export against the background of consumer and business activities remaining at a high level. Thus, consumer growth that is kept at a high level brings, inter alia, risks in terms of a well-balanced state of the foreign trade.

In 2018 Q3, moderate dynamics of investment demand remained. After a significant flow of investments to the fixed assets in Q1, connected with the implementation of big state projects, first of all NPP, in Q2 and Q3, stabilization of investment activity was noted.

In 2018 Q3, curbing influence on inflation processes from the side of budget policy remained. According to the results of January-September 2018, the consolidated budget was executed with a surplus in the amount 4.5% to GDP.



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



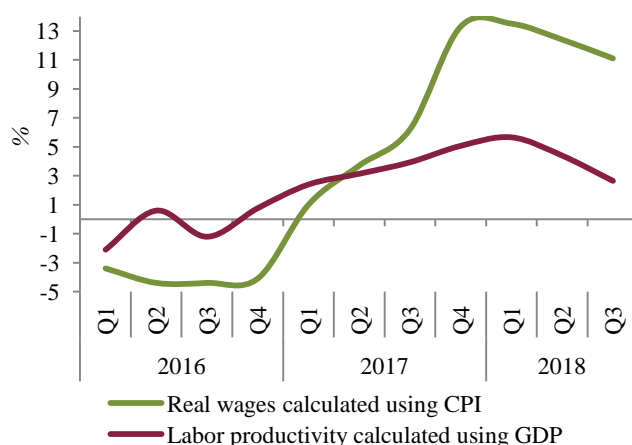
Source: the National Bank's calculations based on the National Statistical Committee's data

The surplus of the budget made it possible to increase average daily balances of the ruble deposits of the Government and National bank from BYN1.9 billion in Q2 to BYN2.1 billion in Q3.

The decrease of the share of current expenses in the expenses of the republican budget by 2 percentage points also gives evidence of curbing influence on the inflation (from 90% for January-June to 88% for January-August 2018).

Concerning tax policy in 2018 Q3, the rates of excise duties were increased for separate types of alcohol products, as well as for tobacco products. Nevertheless, the pricing policy in this segment was rather restrained, and there was no sharp growth of consumer prices for these positions. The dynamics of prices for the given goods continued to be moderate. It is most probable that the effect from increasing the excise rates on the general change of consumer prices will be distributed equally within the second half of the year.

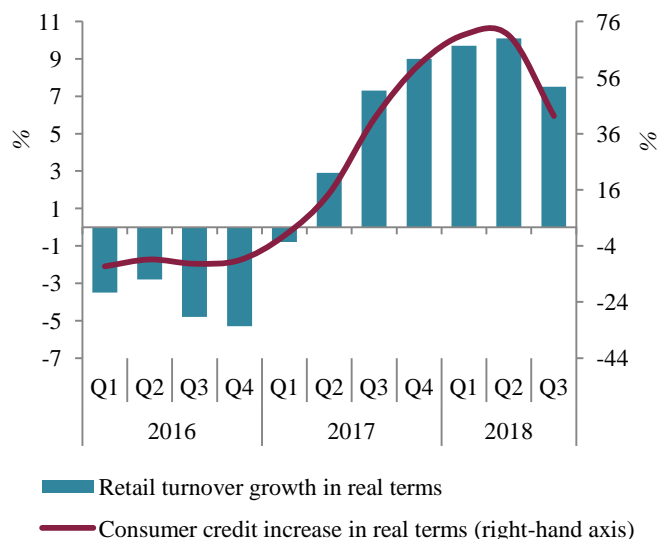
Dynamics of real wages and labor productivity, to the corresponding quarter of the previous year



*labor productivity estimate

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

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



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

4. Monetary conditions

In 2018 Q3, monetary conditions in general had neutral influence and on the whole contributed to the attainment of the inflation target. The dynamics of money supply made it possible to curb inflation processes and contributed to maintaining business and investment activity.

In 2018 Q3, the refinance rate remained at the level of 10% in annual terms (is effective since June 27, 2018). Rates on standing

facilities on maintaining and withdrawing liquidity also changed and in annual terms totaled 11.5% and 8% respectively. In September 2018, average rate of the overnight interbank market amounted to 10% in annual terms (10.6% in annual terms in June 2018).

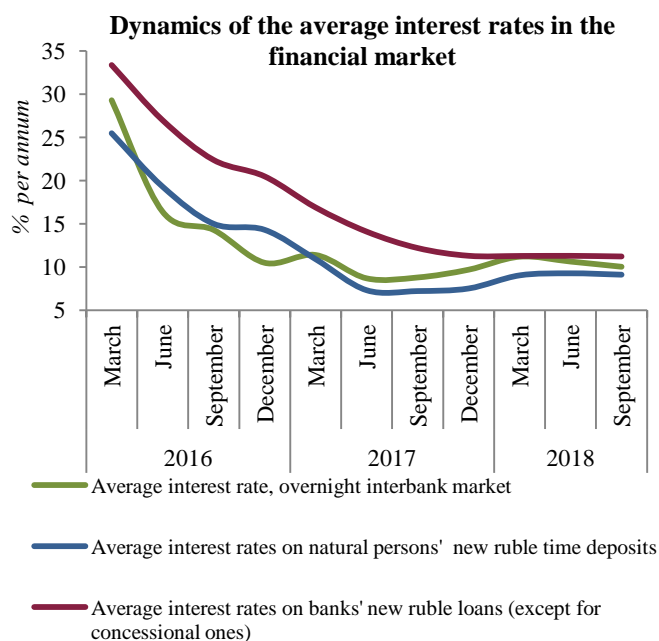
The dynamics of the interest rates in the money market allows for a moderate growth in lending to economy and free inflow of monetary funds to the banking system. At the same time, interest rates in the deposit market remained at the level of Q2, while interest rates in the credit market slightly decreased.

Against the background of some depreciation of the Belarusian ruble, Q3 shows the decrease of the outflow of foreign exchange deposits from the banking system and a less significant inflow of term ruble deposits of the households. Nevertheless, the positive dynamics remains in annual terms. In September 2018, term ruble deposits of the households grew by 18.3% in annual terms (16.1% in June 2018).

The slowdown of consumer lending defined the dynamics of lending to economy in the whole. In September 2018, the annual growth in claims on the economy¹ from the side of the banks and Bank of Development totaled 14.6%, including: in the national currency – 22.4%, in the foreign currency in dollar equivalent – 0.8%.

In September, the growth in average broad money supply in annual terms amounted to 12.2%. Depreciation of the Belarusian ruble became the main factor of the increase in the growth rates thereof.

The share of the foreign exchange share in the structure of the money aggregate due to the measured taken to dedollarize economy continues to decrease, but it still remains at a fairly high level – 61.8% in September 2018



Source: the National Bank

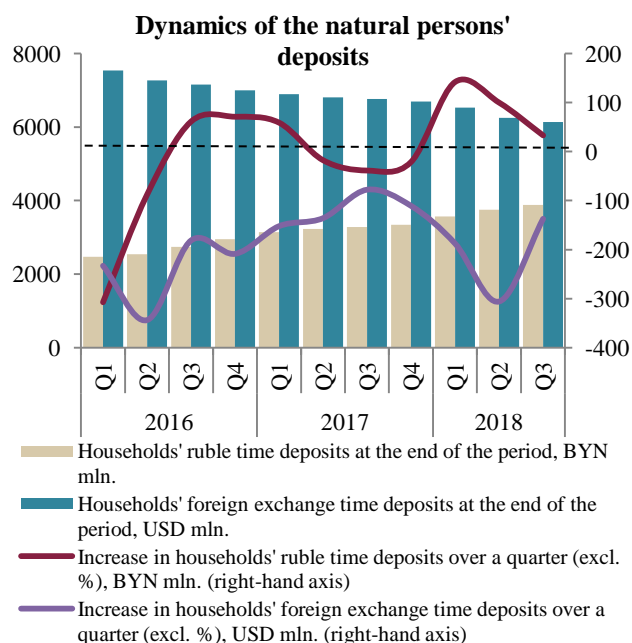
¹ Without taking into account transformation of indebtedness (on the principal debt and interests) within the framework of regulatory and legal acts (in 2015- 2017), as well as writing off for the off-balance accounts.

(62,5% in June 2018).

Against the background of the external shock (depreciation of the Russian ruble against other currencies as a result of latest sanctions against Russia) devaluation expectation of the economic agents increased in Q3. It led to the decrease in the volumes of the foreign exchange sale by households with the remaining volume of purchase thereof in September against August, which caused a significant decrease of net supply from the side of households.

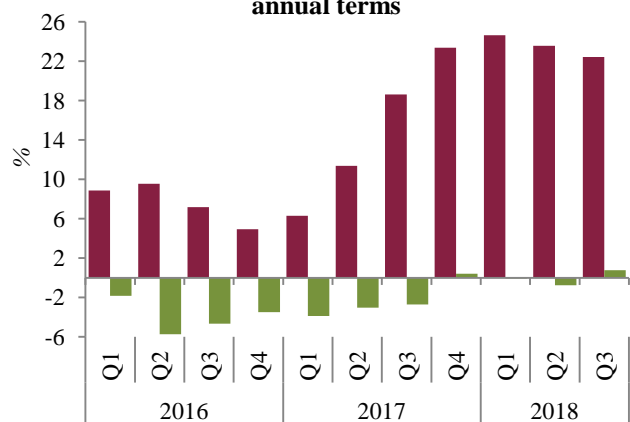
At the same time, the demand for foreign exchange in Q3 from the side of enterprises grew as a result of the outstripping growth rates of import compared to export.

This situation reflected on the exchange rate dynamics. Depreciation of the Belarusian ruble amounted to 2.3% against US dollar according to the results of the quarter, 0.3% against Euro, appreciation against the Russian ruble -3.5% ².



Source: the National Bank

Increase in claims of banks and JSC "Development Bank of the Republic of Belarus" on economy* in annual terms



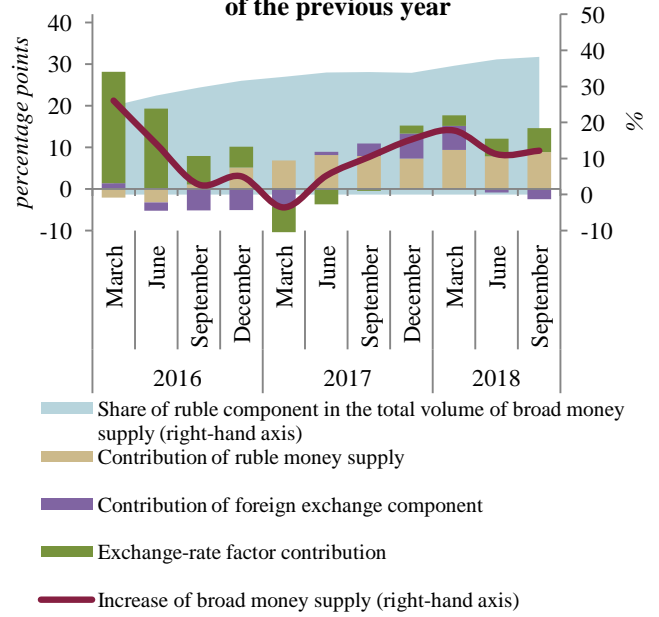
■ in national currency ■ in foreign exchange (dollar equivalent)

* 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

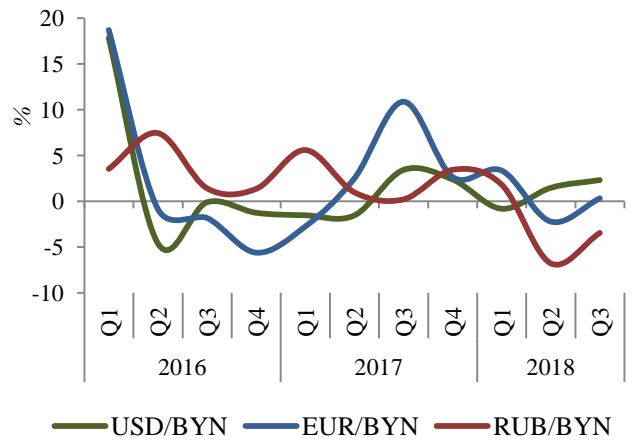
² В расчетах использован средневзвешенный курс белорусского рубля по отношению к валютам основных торговых партнеров. Average weighted exchange rate of the Belarusian ruble against the currencies of the main trade partners was used in settlements.

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



Source: the National Bank