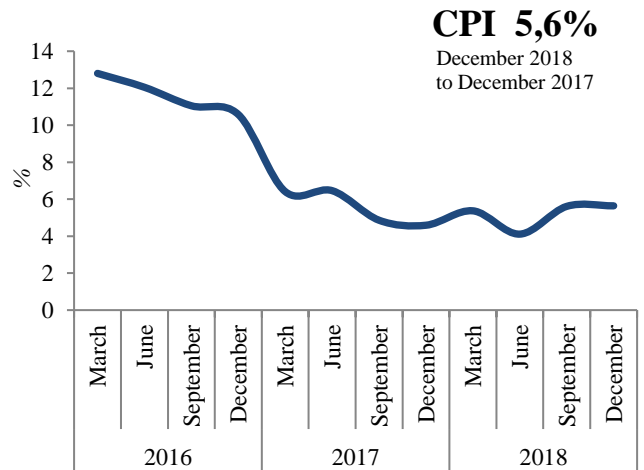


Information on the dynamics of consumer prices and tariffs and factors of changes therein

2018 Q4

In 2018 Q4, the intensity of inflation processes remained at the level of the previous quarter: as in September, the annual increase in consumer prices in December 2018 amounted to 5.6%.

Throughout the year, the annual inflation trajectory was below the target level.



Source: National Statistical Committee

1. Overall change in consumer prices

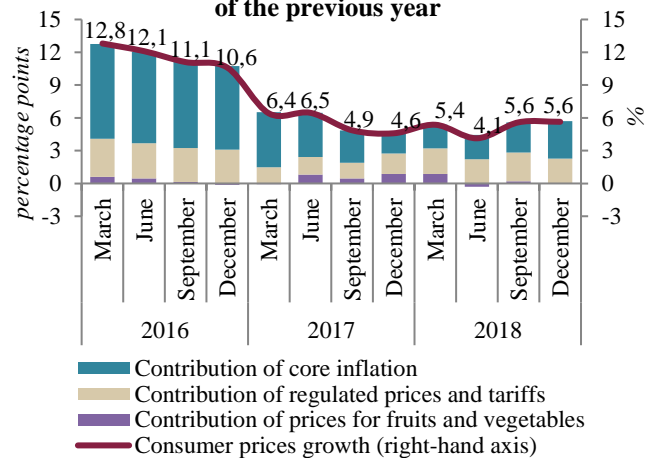
The dynamics of the annual consumer price growth in 2018 Q4 was mainly affected by the acceleration of core inflation, with a slowdown in the growth of administratively regulated prices and tariffs and a decrease in seasonal prices.

The annual increase in administratively regulated prices and tariffs totaled 9% (10.8% a quarter earlier). In Q4, tariffs for communication services, fare in passenger urban and suburban motor transport, services for preschool institutions, as well as prices for automobile fuel and tobacco products were increased.

Seasonal prices (for fruits and vegetables) at the end of the year decreased in annual terms by 0.9% (a quarter earlier - raised by 1.1%).

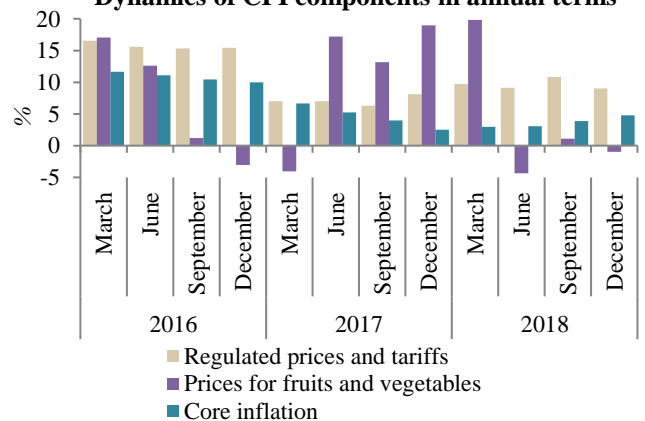
Annual core inflation increased from 3.9% in September to 4.8% in December 2018. The acceleration of core inflation in 2018 Q4 was largely caused by the influence of the conjunctural factor (due to low grain yield) on the price dynamics, primarily meat products, and to a lesser extent other food products.

Breakdown of inflation, to the corresponding month of the previous year



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

Dynamics of CPI components in annual terms



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

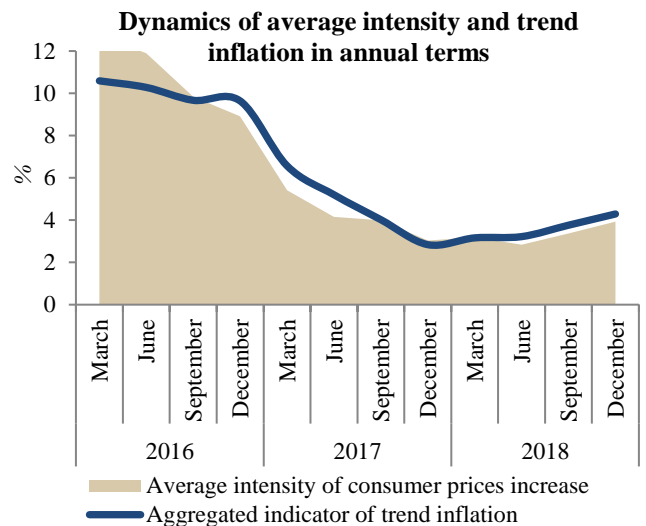
As compared with last year, consumer and credit activity, due to the recovery of real disposable incomes of the population, ceased to have a restraining effect on inflation processes (which was typical for 2017) and, thus, generally contributed to an increase in consumer prices in the reporting year.

The values of price indicators cleared of the effect of short-term shocks add up at a higher level compared to the previous quarter - trend inflation in annual terms in December 2018 was 4.3% (3.8% in September 2018). At the same time, its monthly average value in Q4 corresponded to the monthly average rate in general for the year. The average intensity of growth in consumer prices and tariffs at the end of the year accounted for 3.9%.

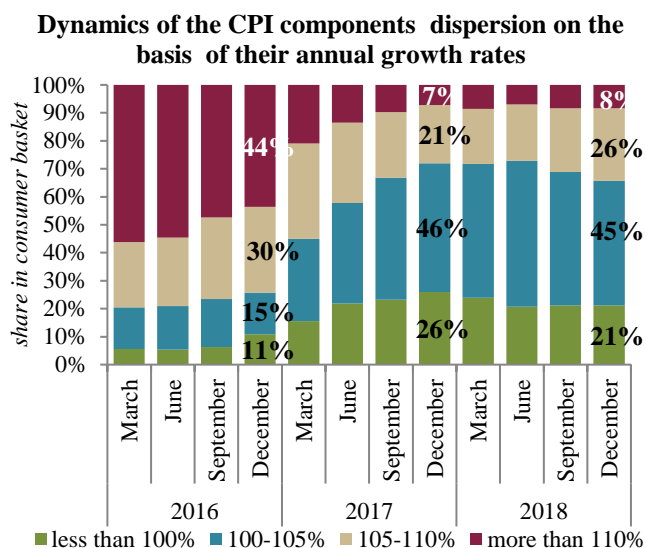
The homogeneity of consumer price growth in Q4 slightly deteriorated. In December 2018, the share of goods and services, prices and tariffs for which in annual terms grew by less than 5%, stood at 66% (69% a quarter earlier).

The rise in fuel prices, the influence of the conjunctural factor against the background of the increased exchange rate volatility caused an increase in inflation expectations in 2018 Q4. The estimate of the expected increase in prices in the next 12 months in November 2018 amounted to 12.6%, which is higher than the previous estimate by 0.9% percentage points. The inflation felt by the respondents over the past 12 months totaled 12.9% in November 2018 compared to 12.5% in August 2018.

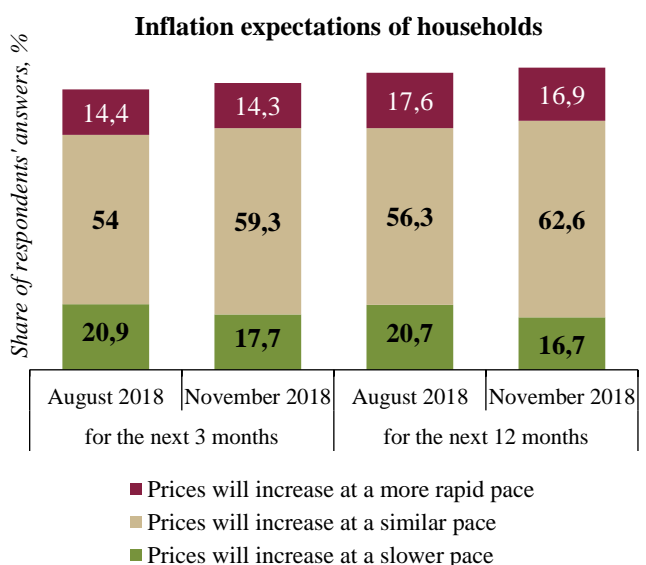
Inflation expectations of enterprises also increased: in December 2018, the share of respondents expecting an acceleration in consumer price growth in the next 12 months grew to 28.9% (24.6% in September 2018).



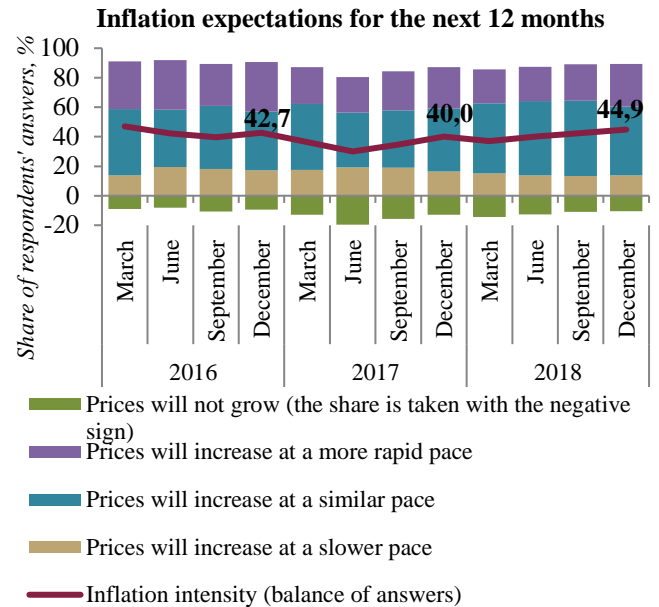
Source: the National Bank's calculations based on the National Statistical Committee's data



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



Source: the National Bank



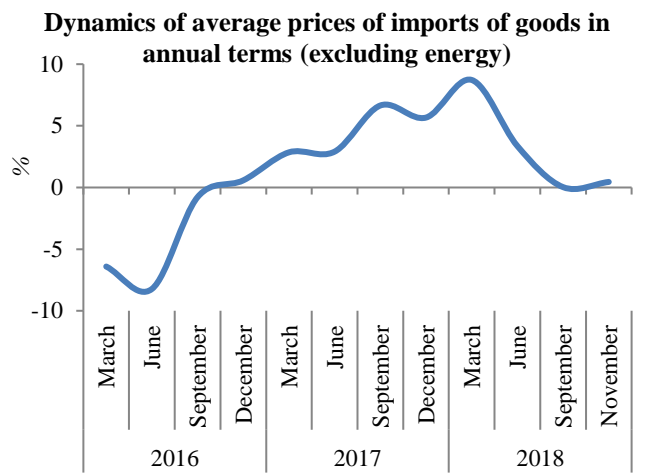
Source: the National Bank

2. Import prices and producer prices

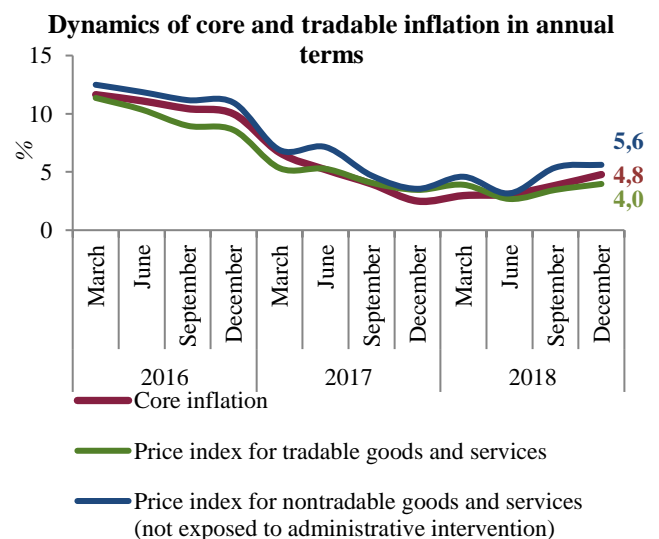
In 2018 Q4, the change in the average prices of imports did not have a significant impact on the dynamics of domestic consumer prices. Industrial producer prices continued to slow down in annual terms and had a limited impact on the dynamics of consumer market prices. At the same time, there was an accelerated rise in the prices of producers of certain types of agricultural products, which contributed to the increase in prices for the majority of food products in the consumer market.

The dynamics of the average prices of imports of goods (excluding energy ones) is characterized by low growth rates: in November 2018, their annual increase totaled 0.5%. Thus, the influence of this factor on the dynamics of domestic prices is estimated as neutral.

The traded inflation in 2018 Q4 remained below the baseline. The annual growth rate in December 2018 was 4% (3.5% in September 2018). Acceleration of traded inflation is associated with the impact of adverse market conditions of agricultural products. Prices for non-tradable goods and services (excluding regulated positions) remained at the level of the previous quarter.



Source: National Statistical Committee



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

The growth rate of industrial producer prices slowed down in Q4 by 0.6 percentage points in annual terms and amounted to 6.4%. The annual increase in prices for consumer goods declined by 0.2 percentage points to 3.7%.

2018 Q4 witnessed an acceleration in the annual growth rate of agricultural producers' prices: from 11.1% in September to 15.6% in December 2018. The highest growth rates are characteristic of the prices of main grain crops, as well as certain types of vegetables.

Despite the slowdown in annual terms of growth in prices for livestock products (from 5% in September to 4.5% in December 2018), prices for cattle of meat and dairy breeds, live pigs, broiler chickens, chicken eggs accelerated in Q4.

For information:

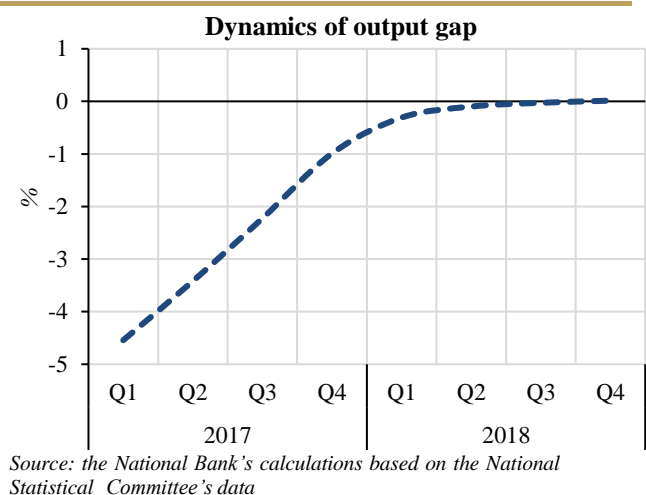
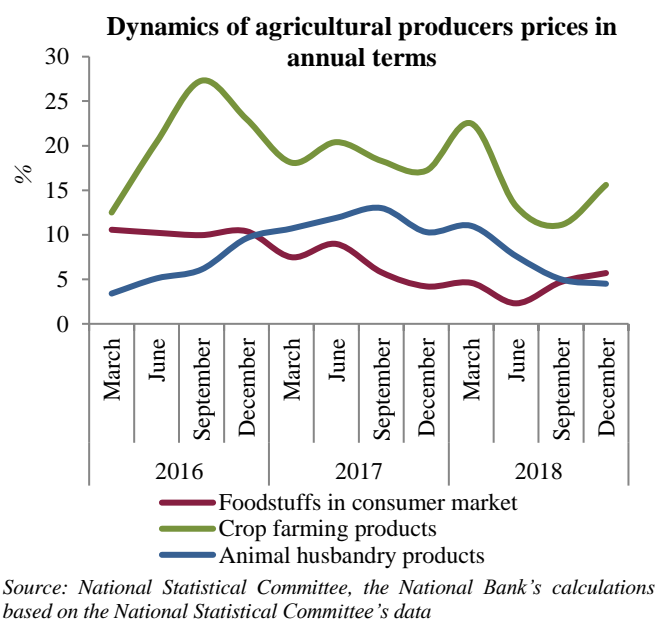
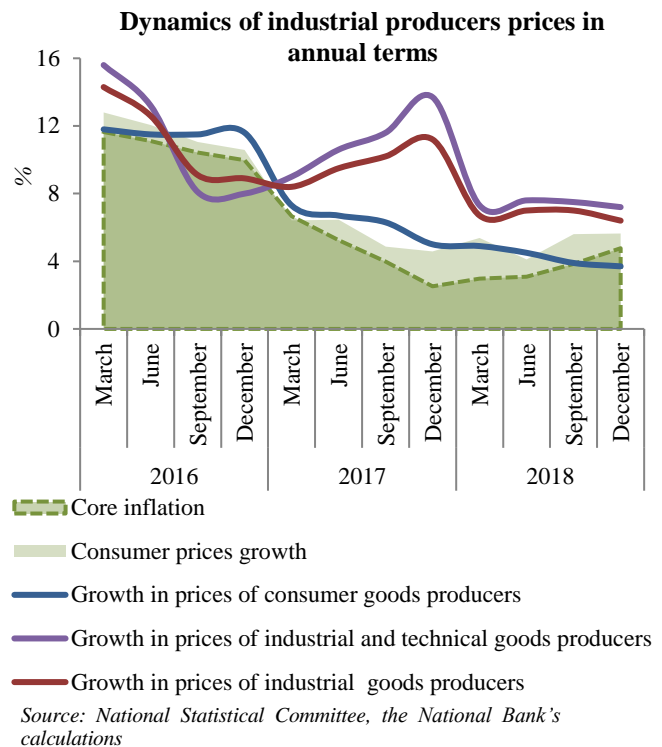
The annual increase in prices for cattle of dairy breeds in December 2018 stood at 6.3%, meat breeds – 15% (in September 2018 - 5.6% and 10.6%, respectively). Prices for live pigs in annual terms accelerated from 5.8% in September to 10.8% in December 2018, prices for broiler chickens from 1% to 4.5%, for chicken eggs from 5.2% to 10.9%, respectively.

The world market also maintained high rates of growth in prices for grain crops. According to FAO, in December 2018, the annual increase in cereal prices accounted for 10.5%, with a general decline in food prices by 3.6%.

3. Current economic situation

In 2018 Q4, economic growth continued to slow down, both due to a decrease in investment demand and due to more moderate consumer demand. In general, the impact on inflation from the side of economic activity is estimated as neutral.

Since 2018 Q3, output growth in the economy has been maintained near its equilibrium level, and thus does not contribute to either accelerating or slowing down inflationary processes.



Despite the higher growth rates of real wages in 2018 Q4 relative to the previous quarter, there is a further weakening of domestic demand, including due to a slowdown in the growth of household spending.

As pent-up demand is exhausted, consumer activity becomes more moderate. The increase in real retail turnover in 2018 Q4 amounted to 6.6% compared to the corresponding quarter of the previous year (7.5% in Q3).

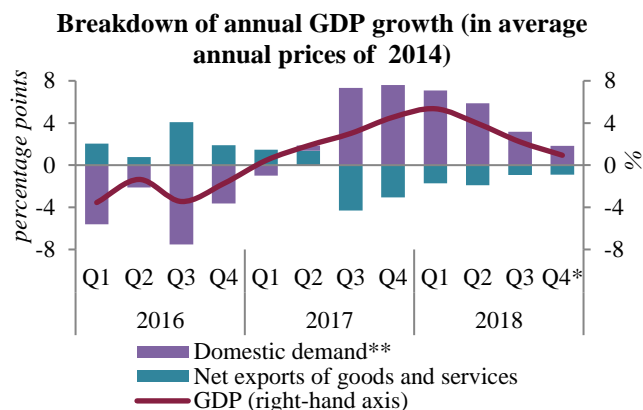
Growth rates in consumer lending continued to slow down, but still remain high. In December 2018, the annual increase in consumer loans amounted to 45.7% (57.1% in September 2018).

In general, fiscal policy did not have a stimulating effect on inflationary processes.

Following the results of 11 months of 2018, the change in expenses of the republican budget corresponded to the growth rates of domestic demand. In addition, revenue growth above the planned level, as well as cost containment, made it possible to increase the surplus of the republican budget compared to last year.

As a whole, the decline in January-November 2018 of current expenditures of the republican budget in real terms and the improvement of the structure of expenditures of the republican budget to a certain extent neutralizes inflationary pressure caused by wage growth in the public sector in 2018 Q4.

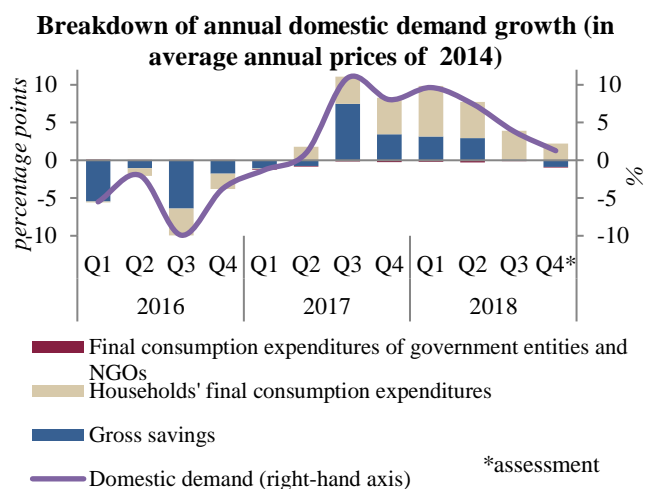
In Q4, taxes were not indexed and excise taxes were not raised. In general, tax policy measures in 2018 contributed to consumer price growth to a small extent.



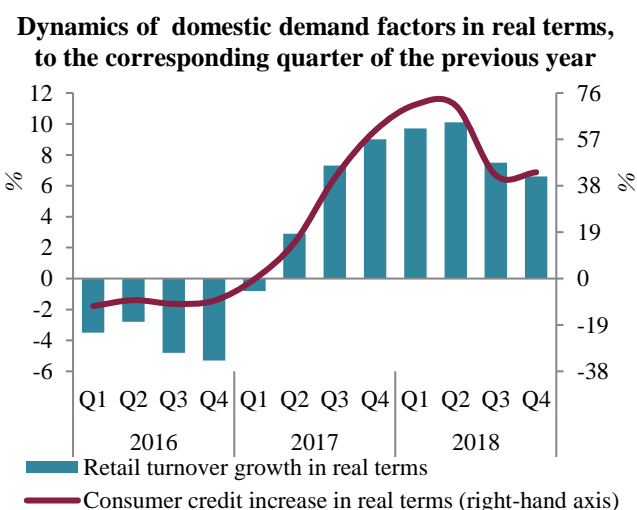
*assessment

**domestic demand includes statistical discrepancies

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: National Statistical Committee, the National Bank's calculations

4. Monetary conditions

The dynamics of the money supply in 2018 Q4 ensured the maintenance of price stability and did not have a restraining influence on business activity. Monetary conditions are estimated to be close to neutral ones.

The growth of the average broad money supply in annual terms in December 2018 accounted for 8.1% with the established parameter being 9 – 12%.

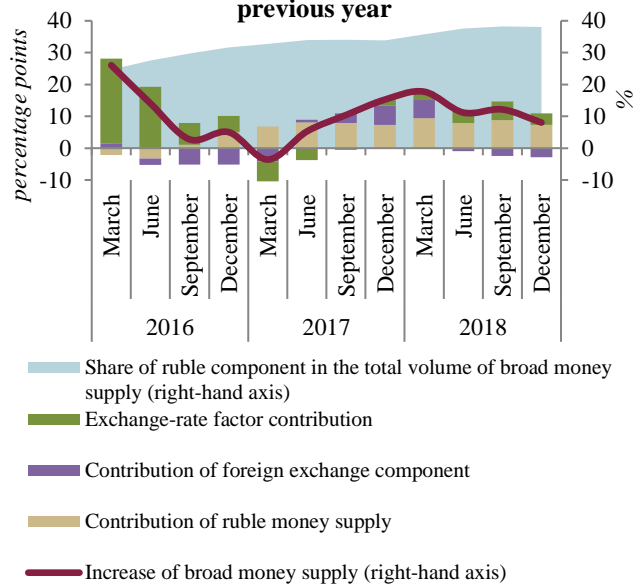
The measures taken in the framework of the dedollarization of the economy contributed to the decline in the share of the currency component in the structure of the monetary aggregate. In December 2018, it fell to 62% versus 66.2% in December 2017.

Monetary conditions, reflecting the cumulative effect of interest rates and exchange rate on the economy, in 2018 Q4 were close to neutral ones. The nominal weakening of the Belarusian ruble helped to neutralize the overvalued real effective exchange rate that emerged in 2018 Q3, and in fact leveled its disinflationary effect. The rates of the credit and deposit market remained close to their equilibrium level.

In view of the current inflation, the refinancing rate was kept at 10% per annum (effective since June 27, 2018). The rates for standing facilities designed to maintain and withdraw liquidity did not change - 11.5% and 8% per annum, respectively. The average overnight interbank market rate stood at 10.8% per annum in December 2018 (10% per annum in September 2018).

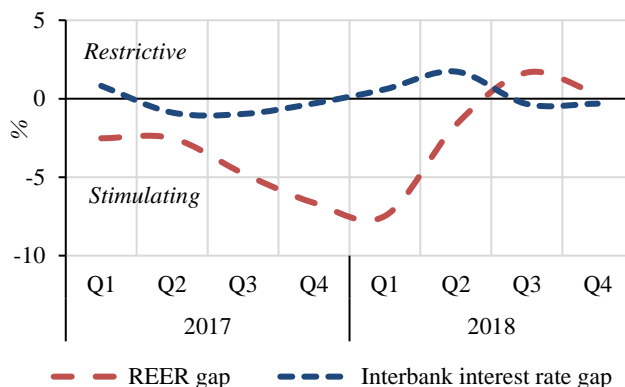
The level of interest rates in the economy ensured the demand for loans in the volumes that do not create risks to price stability and correspond to the level of business activity in the country.

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



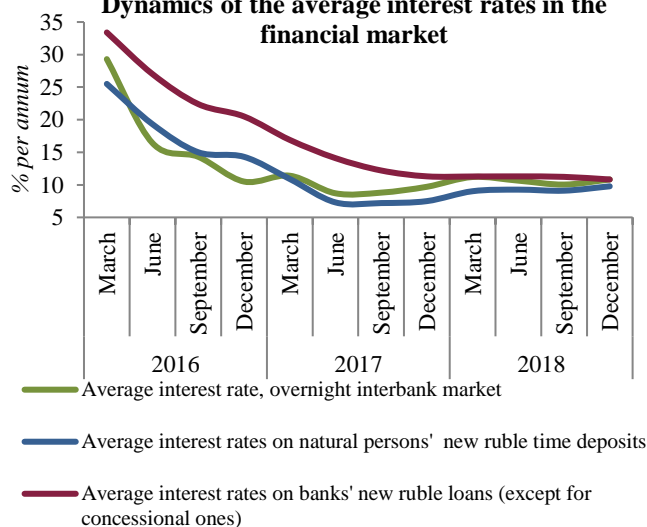
Source: the National Bank's calculations

Monetary conditions



Source: the National Bank's calculations

Dynamics of the average interest rates in the financial market



Source: the National Bank

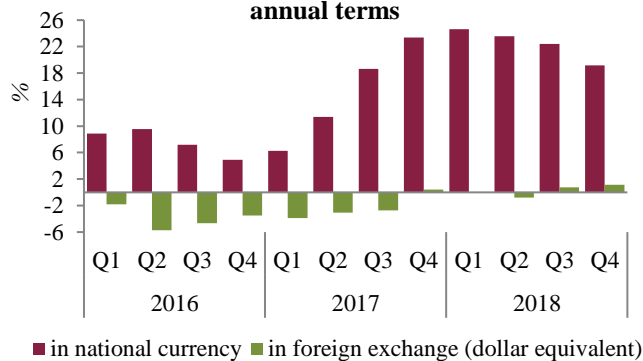
The annual increase in claims of banks and the Development Bank to the economy¹ in December 2018 amounted to 14.8%, including: in national currency - 19.2%, in foreign exchange in dollar equivalent - 1.1%.

At the same time, the dynamics of interest rates ensured the attractiveness of savings in the national currency. In December 2018, fixed-term ruble deposits of the population increased by 20% in annual terms (18.3% in September 2018).

The situation in the domestic foreign exchange market in 2018 Q4 was characterized by the formation of a net supply of foreign currency, mainly due to the operations of resident and non-resident banks. At that, against the background of the increasing volatility of the national currency exchange rate, the population reduced the sale of foreign exchange and increased its purchase.

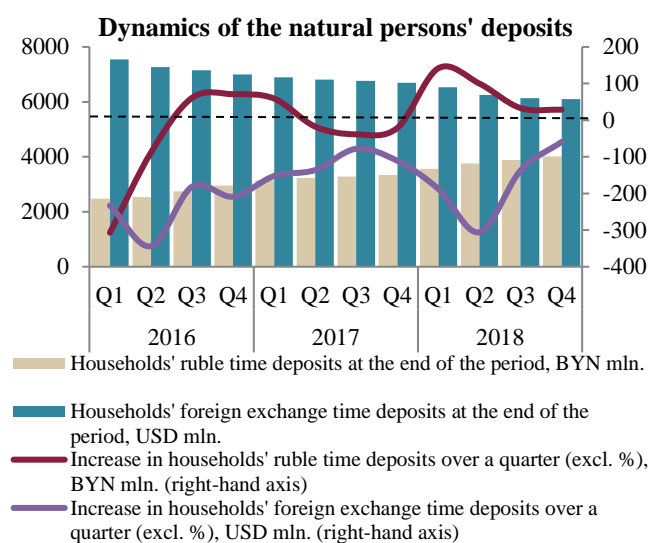
In Q4, the cost of the currency basket raised by 2.7%. At the same time, the weakening of the Belarusian ruble against the US dollar totaled 3.7%, to the euro – 2%, and the Russian ruble - 2.5%².

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



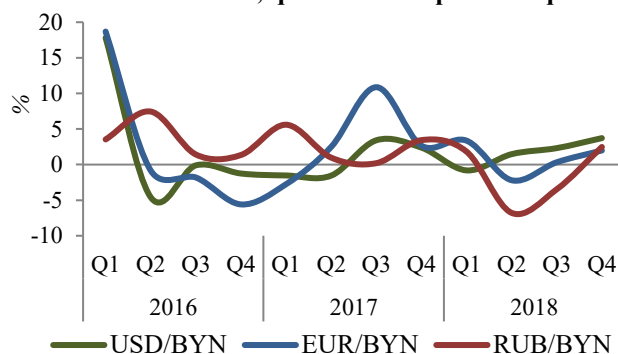
* Excluding debt conversions (on principal and interest) under regulatory legal acts (in 2015 - 2017), as well as write-offs to off-balance sheet accounts

Source: the National Bank



Source: the National Bank

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



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.

² The weighted average exchange rate of the Belarusian ruble against the currencies of the main trading partners was used in the calculations.

