

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

2019 Q1

In 2019 Q1, the dynamics of consumer prices was higher than the target due to the impact of temporary factors. In March 2019, the annual increase in consumer prices totaled 5.8%.

The key factors of the prices growth in the consumer market were the continued impact of unfavourable situation in agriculture, administrative increase in prices for fuel, as well as an increase in prices for separate imported goods.

The disinflationary influence of declining prices of import was compensated by depreciation of the Belarusian ruble, due to which the imported inflation made a moderate influence on the separate prices of the domestic consumer market. On the side of the producers' prices, the inflationary influence is made by the accelerated growth in agricultural producers' prices, primarily, in crop farming, that is correspondingly reflected in the dynamics of prices for food products. The prices of the industrial producers of consumer goods preserve the restrained dynamics.

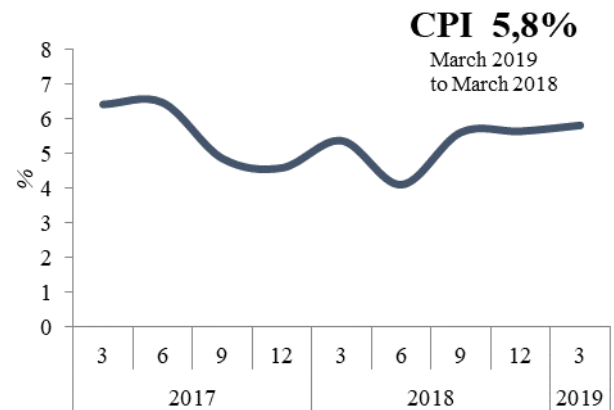
Economic activity was moderate and did not make any influence on the inflationary processes.

The monetary conditions reflecting the aggregate impact of the interest rates and the exchange rate on the economy were close to the neutral ones in 2019 Q1.

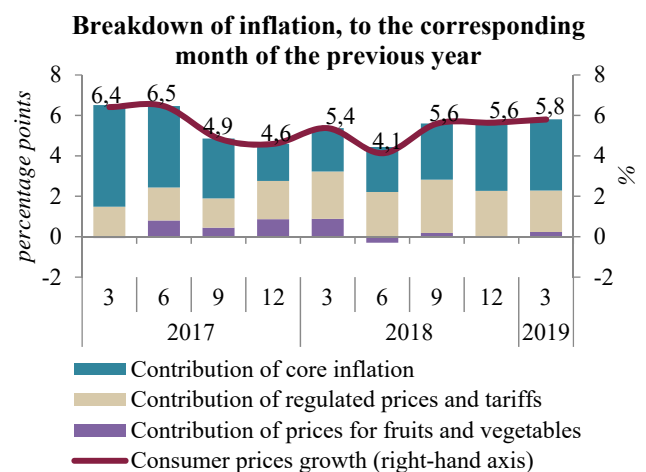
1. Dynamics of the Consumer Price Index

In 2019 Q1, the acceleration of the core inflation and the seasonal prices along with the slowing down of growth in the administratively regulated prices and tariffs took place.

The annual core inflation totaled 4.9% in March (4.8% in December 2018). The unfavourable situation in agriculture was still making a considerable impact on the dynamics of the core inflation in 2019 Q1, due to which the accelerated growth in the



Source: National Statistical Committee



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

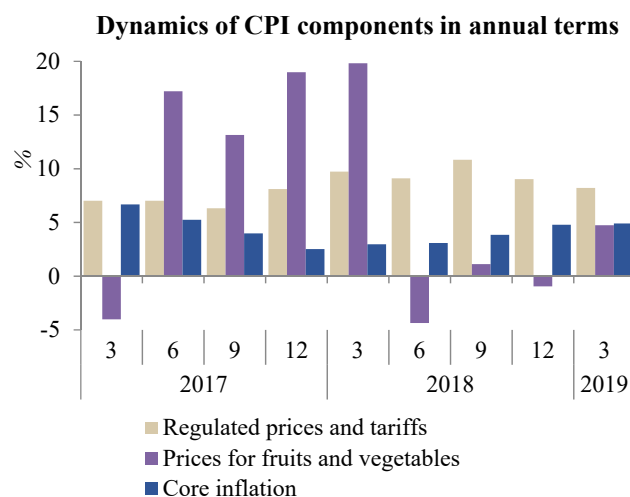
prices for products in the production of which the grain processing products (bread, flour, the majority of cereals, and macaroni products) are used was still in place. Moreover, the growth in the prices for certain imported positions contributed to the increase in prices on this group of goods. The systematic increase in the prices for fuel was an additional factor of the core inflation acceleration.

At the same time, in the livestock sector a gradual termination of the impact of the market shock, which took place in 2018 H2, was observed. It is manifested in the gradual slowing down of the annual growth rates of prices for certain types of meat products and hen eggs. In March 2019, the prices for the above-mentioned positions reduced versus the level of December 2018.

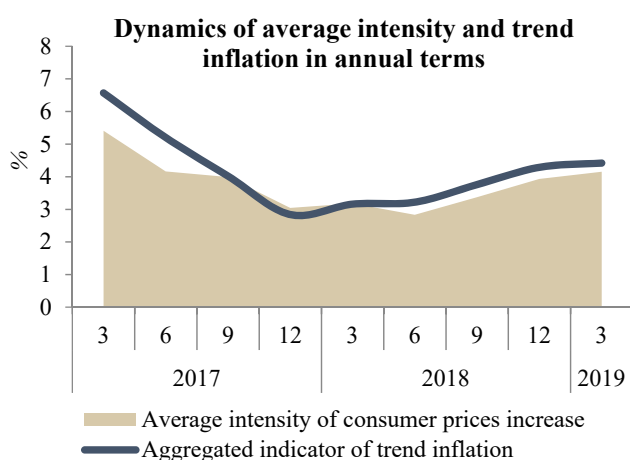
The values of price indicators, without regard to the influence of the short-term shocks are, on the whole, kept at the level of the previous quarter – the trend inflation in the annual terms totaled 4.4% in March. The annual intensity of increase in consumer prices and tariffs totaled 4.2% in 2019 Q1.

The homogeneity of the consumer prices growth in Q1 did not change in a significant manner versus the previous quarter. In March 2019, the share of goods and service, the prices and tariffs for which grew by less than 5% in annual terms, dropped by 2 percentage points versus the previous year, amounting to 63%.

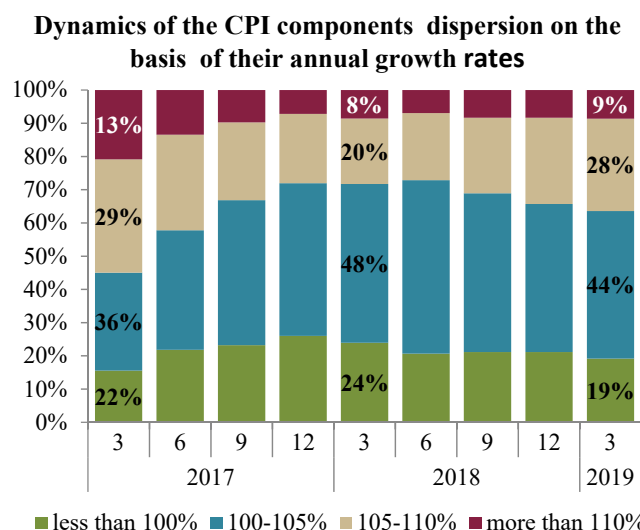
Seasonal prices (for fruits and vegetables) grew in March 2019 by 4.7% in annual terms (in December 2018 – dropped by 0.9%). The most intensive dynamics of prices is



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



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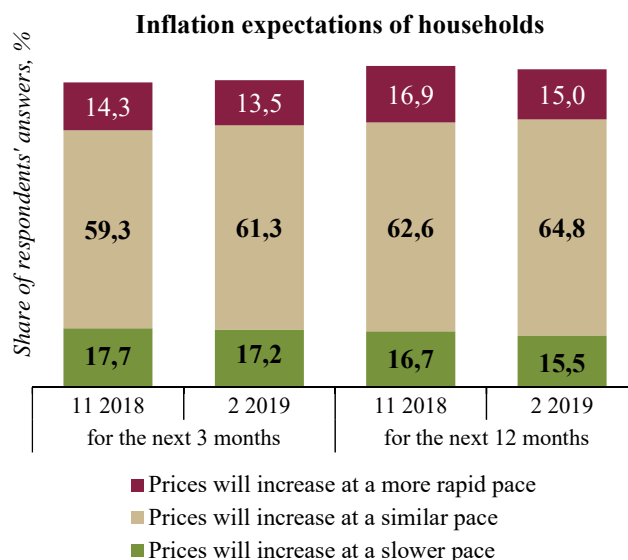
Source: the National Bank's calculations based on the National Statistical Committee's data

characteristic of vegetables of, mostly, domestic production (white cabbage, onion, beet, carrots), that is due to the poor crop in 2018. The similar dynamics of prices of the mentioned positions is also observed in the producers' market.

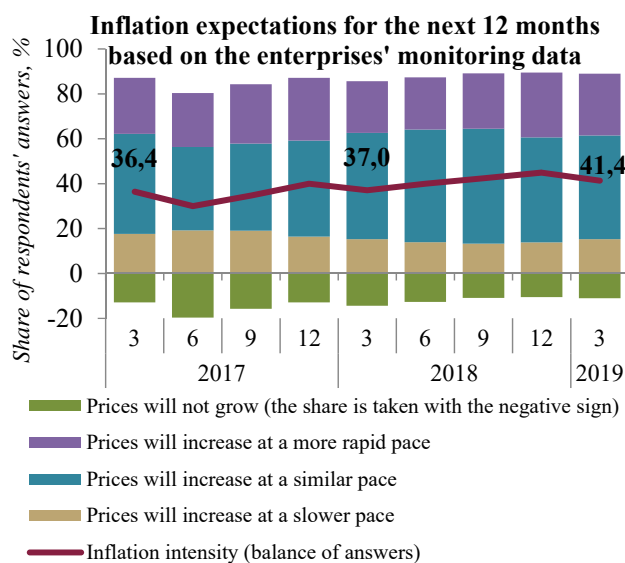
The growth rates of administratively regulated prices and tariffs slowed down in 2019 Q1 in annual terms by 0.8 percentage point, amounting to 8.2% in March 2019. The more moderate dynamics of prices of the regulated positions is related to the fact that one year before in Q1 the more active policy of administrative regulation of prices was carried out. Along with the indexation of tariffs for housing and public utilities and increase in prices for fuel, inter alia, the costs of travel in the intrarepublican railway passenger transport, as well as the higher education services, were raised. In Q1 of the current year the cost of the housing and public utilities services went up and the prices for fuel, medical supplies and tobacco products were increased.

Despite a slight decline, inflationary expectations are still high. According to the latest poll (February 2019), the assessment of the growth in prices in the coming 12 months, expected by households, totaled 11.9% (12.6% in November 2018). The inflation in the recent 12 months, which is perceived by respondents, totaled 12.5% in February 2019, having dropped by 0.4 percentage point versus November 2018.

In March 2019, the enterprises' inflationary expectations decreased as well. The share of respondents expecting acceleration of prices in the coming 12



Source: the National Bank



Source: the National Bank

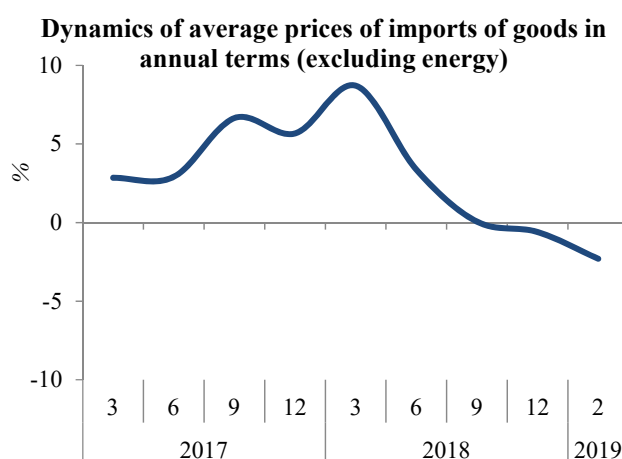
months amounted to 27.5% (28.9% in December 2018). The share of respondents expecting the slowing down of consumer prices growth in the coming 12 months went up.

2. Dynamics of other price indicators

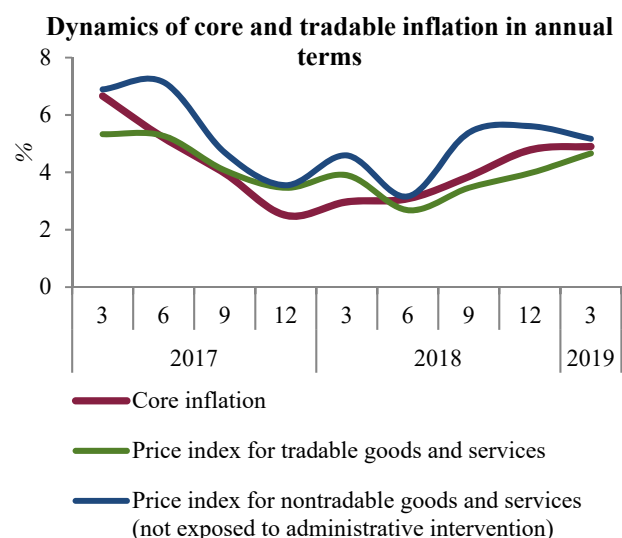
In 2019 Q1, the pressure of imported inflation on prices of the domestic consumer market was partially compensated by decline in the average import prices. The higher growth rates of industrial producers' prices were caused by growing prices for industrial goods. Respectively, their impact on the consumer market prices was limited. At the same time, the continued accelerated growth of producers' prices in plants production is still making pressure on the prices of the majority of foods in the consumer market.

The average prices of goods import (excluding energy goods) dropped in February 2019 by 2.3% in annual terms. Thus, the growth in prices on imported goods, which is observed in the consumer market, is related to the depreciation of the Belarusian ruble.

In 2019 Q1, acceleration of prices on tradable goods continued: their annual growth over the quarter went up by 0.7 percentage point, amounting to 4.7% in March 2019. The dynamics of prices of tradable goods was still influenced by the market shock of the agricultural products market, which is characteristic of the whole region, as well as the higher level of inflation in Russia. The annual growth rates of prices for non-tradable goods and services (excluding positions being



Source: National Statistical Committee



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

regulated) slowed down over Q1 by 0.4 percentage point, amounting to 5.2% in March 2019.

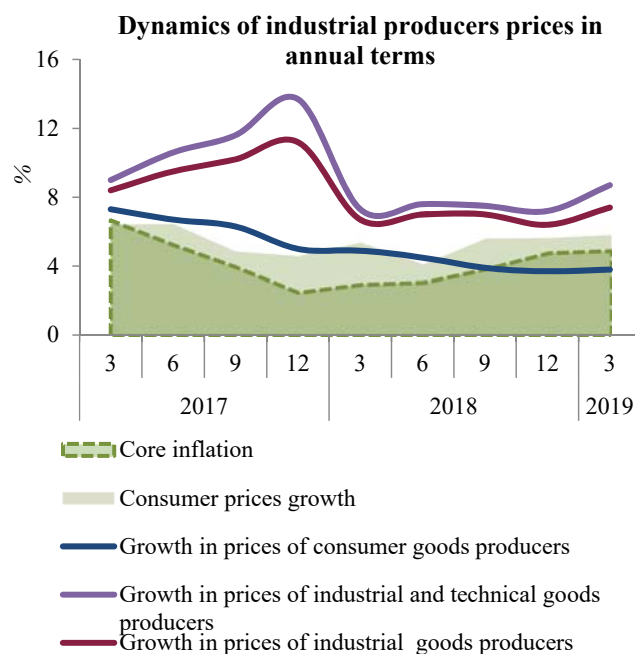
The growth rates of industrial producers' prices accelerated over 2019 Q1 by 1 percentage point to 7.4% at the expense of the corresponding dynamics of prices for industrial products. The annual growth of prices of consumer goods remained, practically, at the level of the previous quarter, amounting to 3.8% in March 2019 (3.7% in December 2018).

In 2019 Q1, the annual growth rates of agricultural producers' prices dropped by 0.9 percentage point to 6.2%. Slowing down of the growth in prices of the livestock products producers from 4.5% in December 2018 to 3.5% in March 2019 totaled 16.1% (15.6% in December 2018). The accelerated growth of prices for grain crops and majority of vegetables (white cabbage, onion, beet, carrots) is still in place.

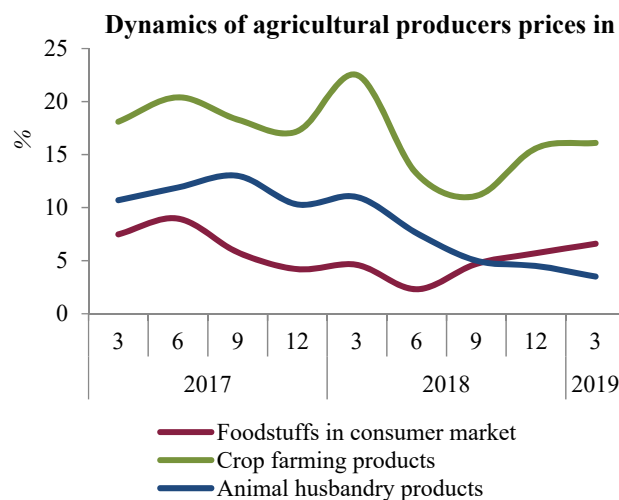
At the same time, a gradual slowing down of prices for grain crops was observed in the global market in 2019 Q1, at the end of the quarter they dropped. According to data of the Food and Agricultural Organization, in March 2019 the prices for grain crops went down by 0.4% in annual terms. Having regard to the stabilization of prices in the global market, the weakening of the conjunctural shock impact may be also expected in the domestic market.

3. Demand and output

In 2019 Q1, slowing down of the economic growth due to the weakening of domestic demand continued. The economic



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



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

activity remained neutral with respect to the inflation.

The growth of the real GDP in 2019 Q1 slowed down to 1.1% versus the corresponding quarter of the previous year, which was, to a great extent, due to further decline of the domestic demand growth rates. On the whole, the growth of output in the economy is close to its equilibrium level and does not make any pressure on the inflationary processes.

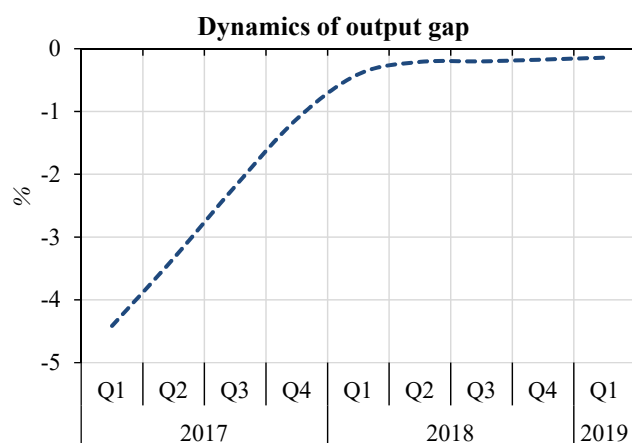
In the quarter under review, further decline in the real wages growth rates in annual terms is observed – 7.8% versus 10.1% in 2018 Q1. Slowing down of the real wages growth is typical of the majority of economic activities.

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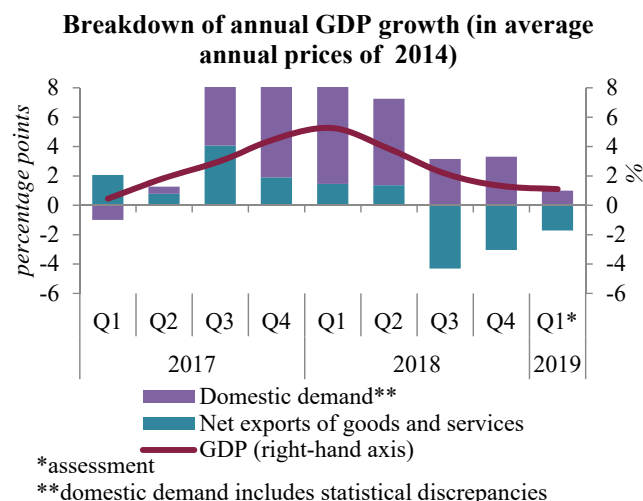
The higher annual growth rates of the indicator in 2019 Q1 compared with 2018 Q4 were observed only in the construction industry, agriculture and fish industry, as well as in certain activities of the processing industry. At that, in the construction industry the share of the average staff number slightly exceeds 5%, in the agriculture – amounts to about 10%, with the share of the wages fund in the total fund being about 6%. Besides, if the average nominal wages in 2019 Q1 in the construction industry (BYN1,086.6) was close to the average one in the republic (BYN1,011), in the agriculture it was nearly two times lower (BYN655.6)

Budget organizations also show the slowdown of the growth in real wages. At the same time the dynamics of the real wages correlates with the general rates of the wages growth in the republic as a whole: in 2019 Q1, real wages in budget organizations grew by 6.8%.

Further deterioration of the domestic



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

demand is observed against the slowdown of the growth rates of wages: in 2019 Q1, the annual growth amounted to 2.5%, a 0.6 percentage points decrease compared to 2018 Q4.

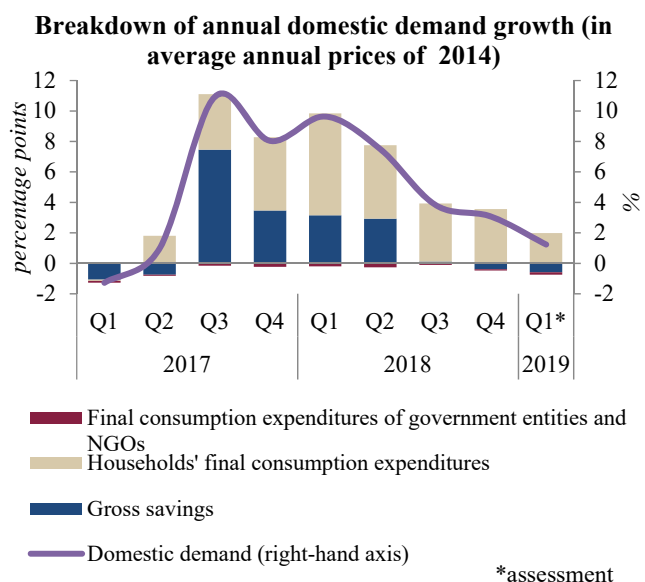
The consumer activity of the households also continued its slowdown for the following reasons: the growth in the expenses for utility services, the accelerated growth for separate consumer goods and slowdown in the rates of growth in lending to households. In 2019 Q1, the growth in real retail trade turnover amounted to 6% against the respective quarter of the previous year (6.6 % in 2018 Q4).

The decrease in the growth rates characterizes mostly the non-food turnover: in 2019 Q1, the annual growth totaled 8.3%, which is 0.9 percentage points lower compared to 2018 Q4. Besides, the segment of non-food goods preserves a high share of imported goods. In 2019 Q1, the annual growth rates of the retail trade turnover of the food segment did not change significantly and amounted to 3.7% against 3.8% in the previous quarter.

The tendency of slowdown in the growth rates of consumer lending has been preserved. Still, the growth rates are at a rather high level, which brings additional inflation risks. In March 2019, the annual growth in consumer lending amounted to 39.6% (45.7% in December 2018).

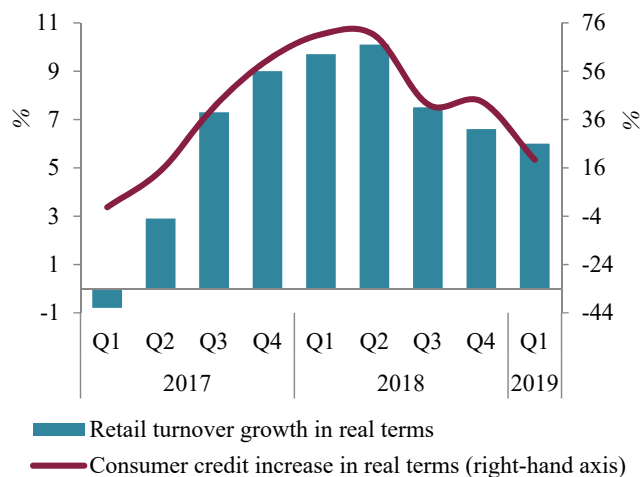
In 2019 Q1, the multidirectional factors influencing the inflationary processes were acting from the side of the fiscal policy.

Expenditures with growth rates, that in



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

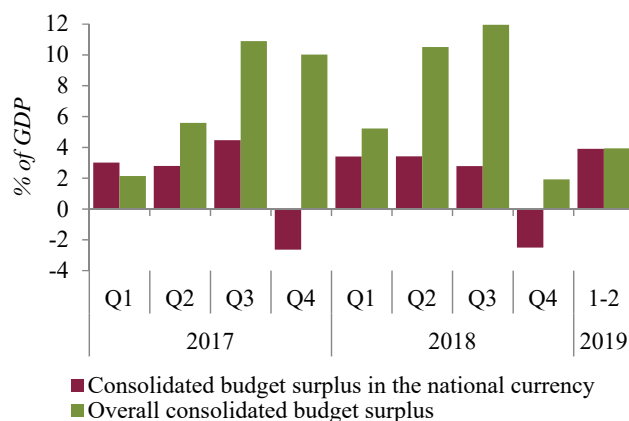
general exceeded the growth rates of the domestic demand, were the factor that exerted stimulating impact. In January-February 2019, the growth in the consolidated budget expenditures in real terms amounted 3.5%¹ with the growth of the domestic demand by 2.5% over Q1. The excess is due to the investment expenses growth.

At the same time, the dynamics of the consolidated budget surplus was a constraining factor. While in 2018 Q4, the deficit of the consolidated budget in the national currency was observed (-2,5% of GDP), in January-February 2019, the surplus amounted to 3.9% of GDP.

January-February 2019 resulted in the improvement of the structure of republican budget (decrease in the share of current expenses by 0.9 percentage points), which curbed the inflation processes. Despite the fact that at the beginning of the year there was no increased growth in the wages of budget organizations employees, the growth of wages of 2018 Q4 had an inflation influence.

Changes in tax policy in the area of excises (increase in the excise rates for alcohol and tobacco products, for fuel) led to the pressure on the prices for excisable goods in the consumer market. The effect from the increase of excise rates in 2019 Q1 was implemented only partially and in general had an insignificant influence on the dynamics of the consumer market prices. Full implementation of the given effect will depend on the price policy of vendors, taking into account the situation in the market and,

Dynamics of the consolidated budget surplus



Source: National Statistical Committee

¹ Expenditures of the consolidated budget have been adjusted for CPI over Q1 2019.

most probably, will be implemented evenly throughout the year.

The given factors counterbalanced each other and in general, in Q1 2019, the measures of fiscal policy did not put pressure on inflation.

4. Monetary conditions and financial market

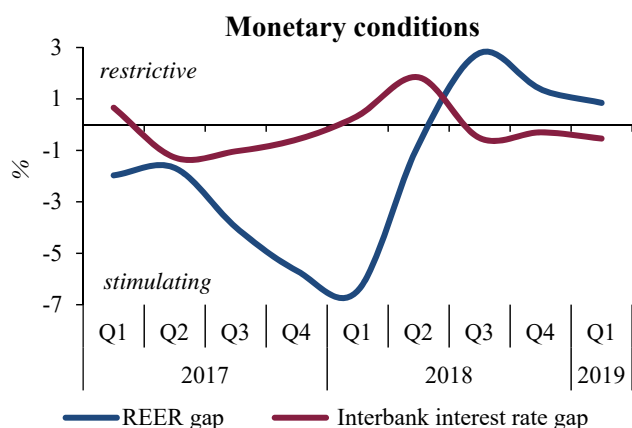
In 2019 Q1, monetary conditions preserved its neutral character. Dynamics of the money supply did not have inflationary pressure and at the same time was conducive to the maintenance of business and investment activities.

Monetary conditions reflecting the aggregate effect of interest rates and exchange rates on the economy in 2019 Q1 were characterized as close to neutral.

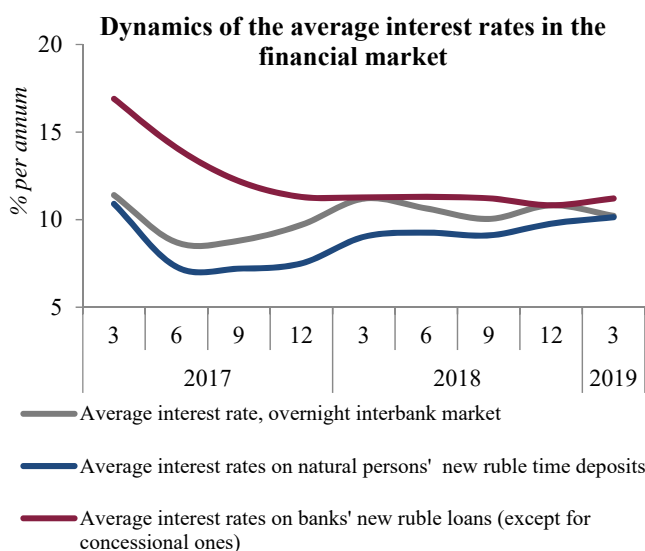
Money market interest rates remained close to their equilibrium level.

The refinance rate was preserved at 10 % per annum (effective from June 27, 2018). In order to ensure the symmetry of interest rates on operations of the National Bank relative to the refinancing rate and reduction of volatility of interest rates in the credit and deposit market, the rate on standing facilities aimed at withdrawing liquidity was increased from 8 to 8.5 % per annum on February 13, 2019. The rate on standing facilities aimed at maintaining liquidity remained at the level of 11.5 %.

As a result, the average rate for the intraday interbank market approached the refinancing rate and amounted to 10.2 % per annum in March 2019 (10.8 % per annum in December 2018).



Source: the National Bank's calculations



Source: the National Bank

Deposit market rates were characterized by positive dynamics, ensuring the attractiveness of ruble savings. In March 2019, the interest rate on new term bank deposits of natural persons in national currency was 10.1 % per annum (in December 2018 - 9.8 % per annum).

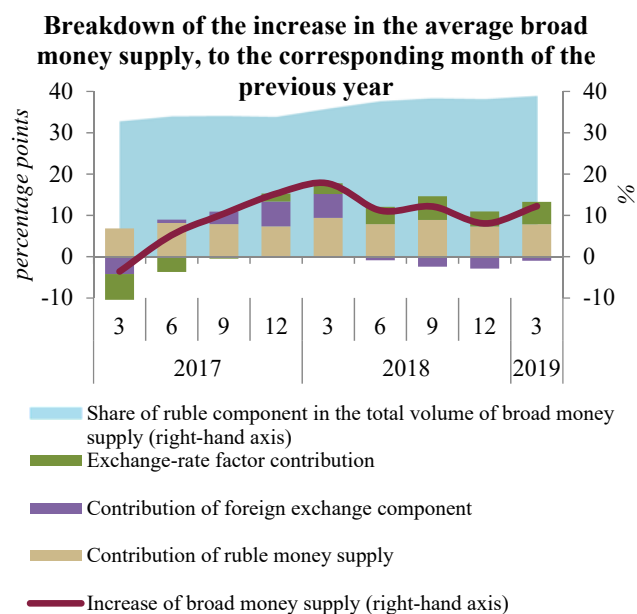
In March 2019, the average interest rate on new bank loans in national currency (excluding loans provided on concessional terms) increased by 40 basis points, amounting to 11.2 % per annum.

Such increase in interest rates is largely a reflection of the acceleration of inflationary processes in the economy and, accordingly, has a limited character.

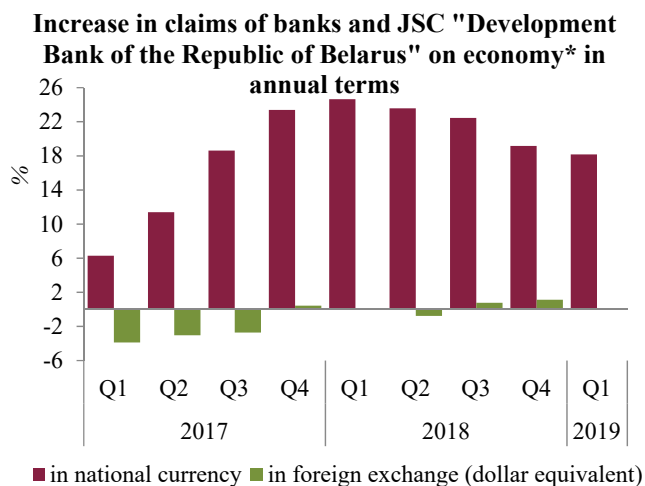
The annual increase in the average broad money supply in March 2019 totaled 12.2 %. The main factors behind the acceleration of its growth rates were the weakening of the Belarusian ruble and the recovery of the currency component due to the inflow of foreign exchange deposits from both natural and legal persons.

In 2019 Q1, a generally moderate lending dynamics was observed in the economy. In March 2019, the annual growth in banks' and the Development Bank's claims on the economy² slowed down to 13.4 %, including: in national currency - up to 18.2 %, in foreign currency it amounted to 0.1 % dollar equivalent.

The real effective exchange rate of the Belarusian ruble in 2019 Q1 was close to its equilibrium level. The increase in prices in



Source: the National Bank's calculations



* 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 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.

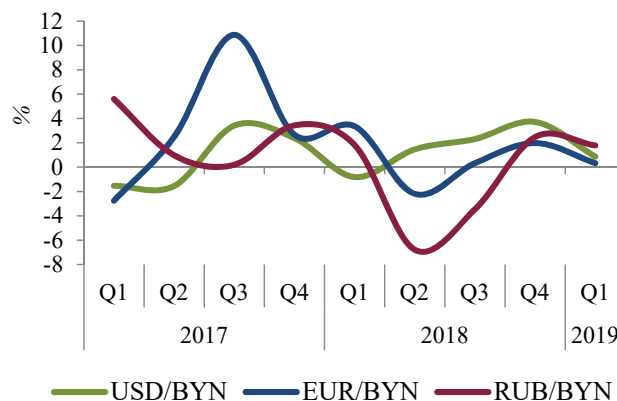
the domestic market was compensated by a nominal weakening of the Belarusian ruble, as well as by acceleration of inflationary processes in the Russian Federation.

The cost of the currency basket in Q1 increased by 1.2%. The weakening of the Belarusian ruble against the US dollar was 0.9 %, against the euro – 0.3 % against the Russian ruble – 1.8 %³. At the same time, during the quarter, multidirectional exchange rate dynamics took place: the main depreciation occurred at the beginning of the year, starting since February, there was a general appreciation of the Belarusian ruble.

In 2019 Q1, a net supply of foreign currency was formed in the domestic foreign exchange market. In the enterprise segment, the increase in the incoming foreign exchange proceeds contributed to the formation of net supply, largely due to the improved trade in potash fertilizers, as well as due to the transfer to the Belarusian ruble when paying separate taxes.

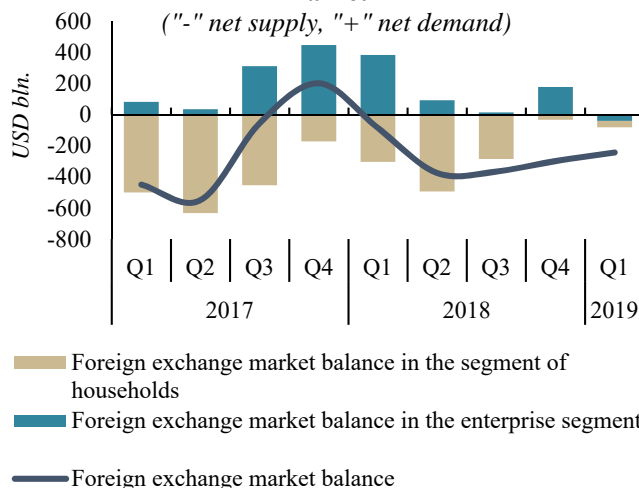
In the segment of natural persons, the trend of decline in the net currency supply continued. As a result of the recovery of monetary income of the households, the growth in demand for foreign currency from the side of households increased to a greater extent than its supply.

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



Source: the National Bank

The situation in the domestic foreign exchange market



Source: the National Bank

³ The calculations are made with the average weighted rate of the Belarusian ruble against the currencies of the main trading partners.