

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

2019 Q2

In 2019 Q2, annual inflation continued to form at a higher level relative to the target parameter. This was facilitated by the accumulated influence of previously formed pro-inflation factors. The annual increase in consumer prices in June 2019 amounted to 5.7% (5.8% in March 2019).

A significant impact on the price dynamics of the consumer market in the reporting quarter was caused by the gradual weakening of the negative influence of the conjuncture shock in the agricultural market, as well as the strengthening of the Belarusian ruble against the currencies of the main trade partners.

From the manufacturing side, the pressure on consumer market prices continued to be exerted by an accelerated increase in the prices of agricultural products producers, primarily crop production, which is the main channel for transmitting the impact of market shock on consumer market prices. On the part of industrial manufacturers, there was no significant inflationary effect on the consumer market.

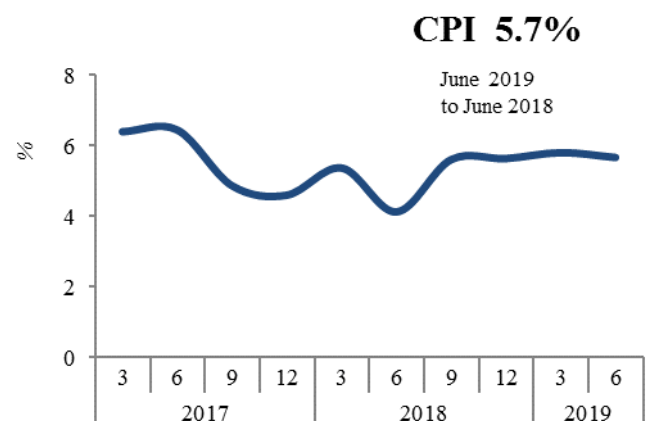
Economic activity was moderate and did not have a stimulating effect on inflationary processes.

Monetary conditions, reflecting the combined effect of interest rates and the exchange rate on the economy, remained neutral in 2019 Q2.

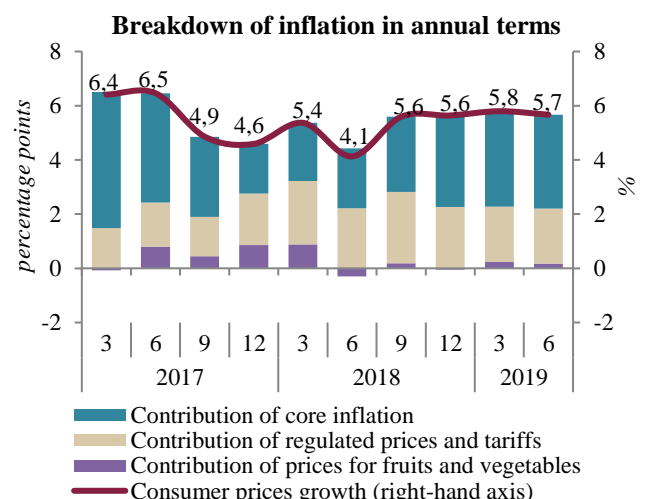
1. Consumer price index dynamics

In 2019 Q2, the dynamics of core inflation and regulated prices and tariffs in annual terms remained in general at the level of the previous quarter. The annual growth rate of seasonal prices slowed down somewhat.

Annual core inflation amounted to 4.8% in June 2019 (4.9% in March 2019). A restraining effect on the dynamics of the indicator was primarily due to the weakening influence of market shock in the agricultural market. First of all, this relates to the market of meat products, the accelerated growth of



Source: National Statistical Committee



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

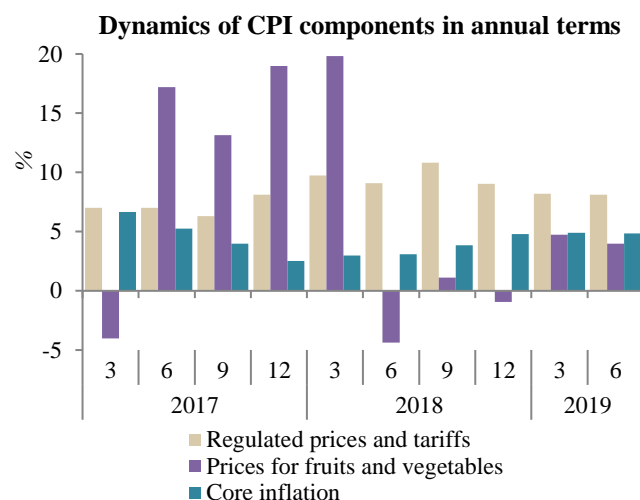
prices for which began in June 2018 and continued until the end of the year. At that, a moderate growth in prices continued for food products, the production of which uses grain processing products (cereals, flour, bread, etc.). In 2019 H2, a gradual decline in the contribution of these positions to the annual increase in consumer prices is expected. An additional limiting factor was the strengthening of the Belarusian ruble against the currencies of the main trading partners in 2019 Q2.

Price indicators, cleared of the influence of short-term shocks, demonstrate more moderate growth rates relative to both the general increase in consumer prices and core inflation. Thus, trend inflation in June 2019 accounted for 4.5% in annual terms, the average intensity of growth in consumer prices stood at the level of 4.2%.

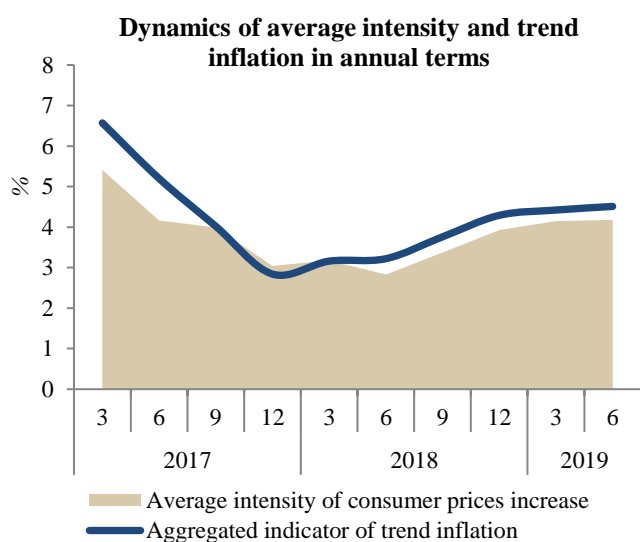
The homogeneity of consumer price growth in 2019 Q2 did not significantly change compared to the previous quarter, and as a whole continues to develop worse than last year. The share of goods and services, prices and tariffs for which in annual terms grew by less than 5%, amounted to 63% in June 2019 (64% in March 2019).

The annual growth rate of regulated prices and tariffs during the quarter remained generally at the same level. In June 2019, their growth amounted to 8.1% (8.2% in March 2019). The main contribution to the annual dynamics of prices and tariffs for this group was provided by the increase in the cost of housing and communal services, automobile fuel, communication services and higher education. At the same time, at the end of 2019 Q2, against the background of lower oil prices on the world market, retail fuel prices were slightly reduced.

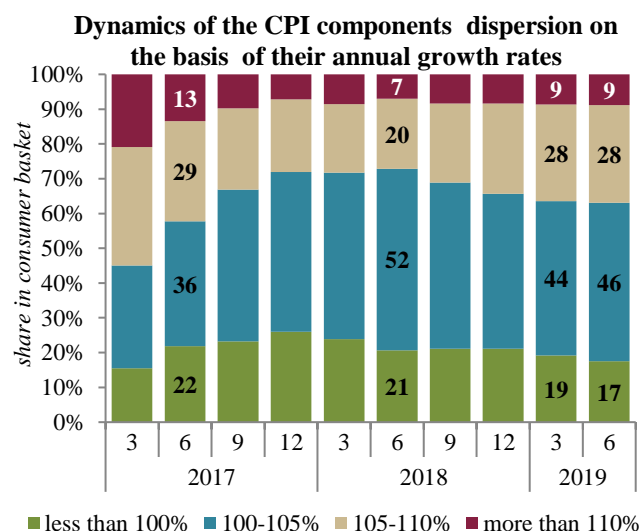
In June 2019, prices for fruits and vegetables slowed to 4% in annual terms



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



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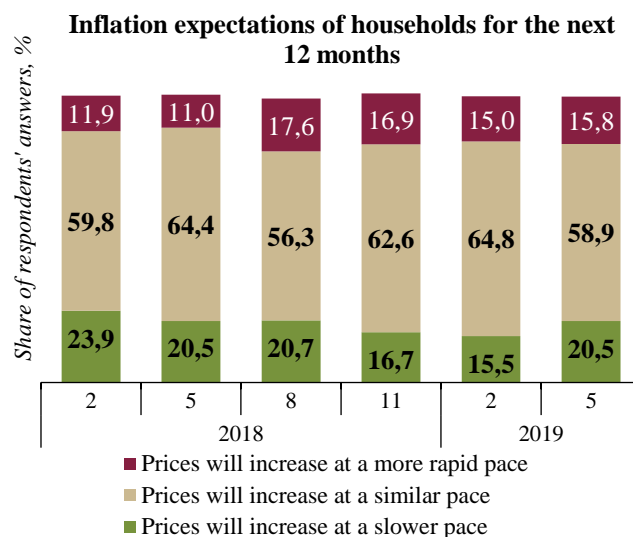
Source: the National Bank's calculations based on the National Statistical Committee's data

(4.7% in March 2019), which was facilitated by the corresponding dynamics in prices for most types of vegetables. During Q2, a high volatility in the annual dynamics of seasonal prices was observed, which is associated with a change in the seasonal pattern of the summer period as a result of significant differences in weather conditions of the last and current year.

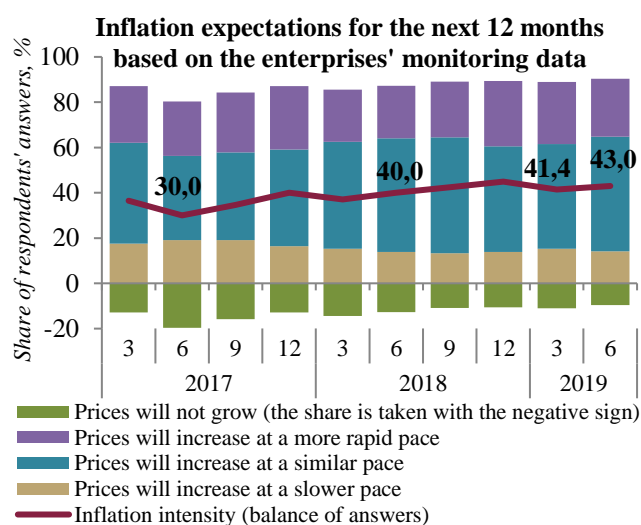
In 2019 Q2, inflationary expectations of economic agents slightly decreased, but still remain at a fairly high level.

Based on the latest survey (May 2019), the estimate of the expected increase in prices in the next 12 months was 11.5% (11.9% in February 2019). The inflation felt by the respondents over the past 12 months totaled 12.2% in May 2019, decreasing by 0.3 percentage points compared to the assessment in February 2019.

According to monitoring of enterprises' inflationary expectations, the share of respondents expecting prices to accelerate in the next 12 months fell in June 2019 to 25.7% (27.5% in March 2019).



Source: the National Bank

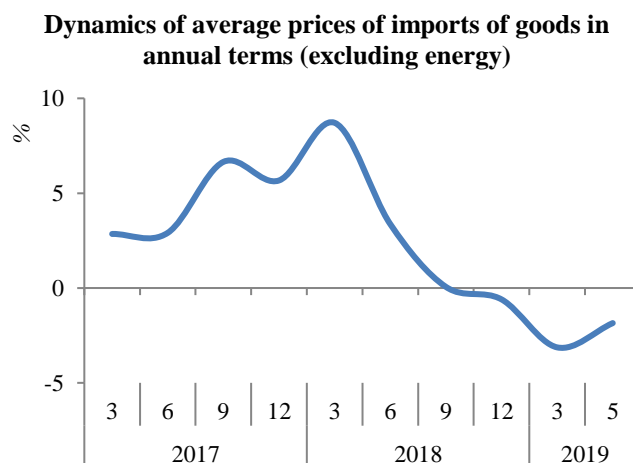


Source: the National Bank

2. Dynamics of other price indicators

In 2019 Q2, imported inflation had a generally restraining effect on domestic inflation processes. Industrial producer prices showed a slowdown and did not exert significant pressure on domestic consumer market prices. At that, the dynamics of prices of agricultural products' producers continued to have an inflationary influence on the food segment of the consumer market.

The decrease in annual terms of average import prices amid the strengthening of the Belarusian ruble against the currencies of the main trading partners in Q2 had a restraining



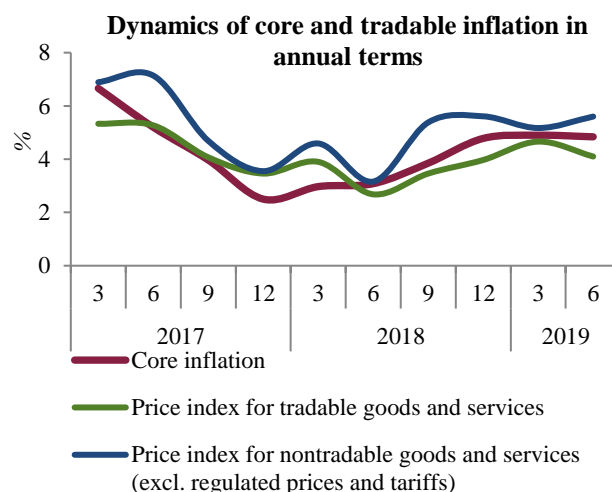
Source: National Statistical Committee

effect on the growth of prices on the domestic consumer market. In May 2019, average import prices (excluding energy prices) decreased by 1.8% compared to May 2018.

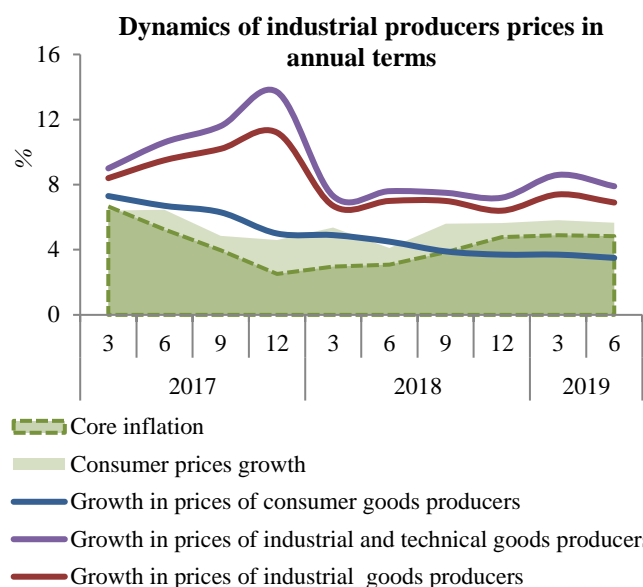
The prices of traded goods in Q2 were characterized by a more moderate dynamics: their annual growth for the quarter decreased by 0.6 percentage points and amounted to 4.1% in June 2019.

The increase in industrial producer prices slowed down as well: the annual growth in June 2019 stood at 6.9%, which is 0.5 percentage point lower than the level of March 2019. The more moderate growth rates compared to the previous quarter are characteristic of producer prices both of industrial and technical and consumer purposes – 7.9% and 3.5%, respectively (8.6% and 3.7% in March 2019).

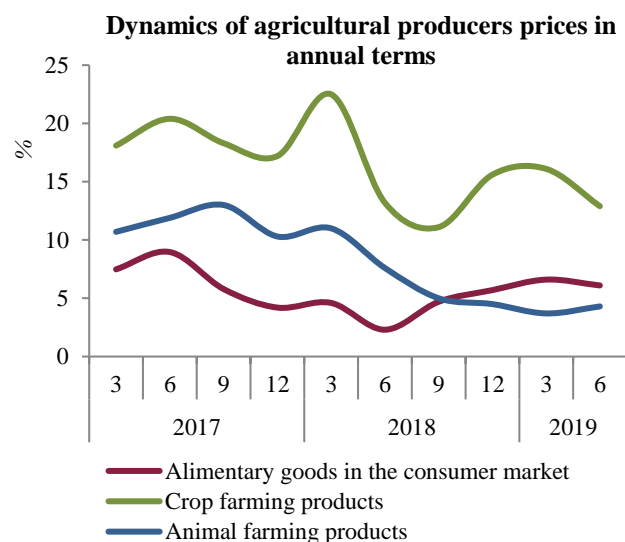
As expected, Q2 2019 showed decrease in the intensity of growth in prices for crop farming: annual increment in June 2019 amounted to 12.9% (16.1% in March 2019). This was mostly due to the lower prices for vegetables in the summer period. Annual growth rates for grain cultures remained at the higher level and preserved price pressure for grain processed products. In June 2019, prices for animal-farming products became 4.3% higher in the annual terms (3.7% in March 2019). Acceleration of the prices growth rates was conditioned mainly by the corresponding dynamics of prices for raw cow milk, which reflected in the dynamics of the consumer prices for milk and milk products.



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



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



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

3. Demand and output

Real GDP growth slowed down from 1.3% in Q1 2019 down to 0.5% in Q2 2019 against the corresponding quarter of the previous year.

Import of low quality Russian oil in April 2019 caused temporary suspension of export supplies by domestic oil refinery enterprises, which reflected in significant decrease of net export of goods and services as a result of Q2 and became a significant factor of economic growth slowdown in the period under review.

Domestic demand in general remained at the level of Q1 and continued its business activity. The annual growth in Q2 2019 was estimated at the level of 2.7% (3% in Q1 2019).

Dynamics of factors defining consumer activity also did not change significantly. Thus, in the period under review, the annual growth of the real wages amounted to 7.7% (7.8% in Q1 2019). The annual rates of consumer lending in real terms totaled 29% (34.5% in Q1 2019).

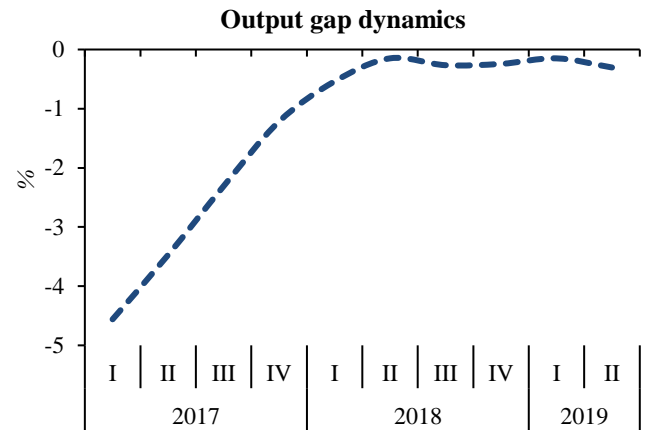
On the whole, the economic growth is close to its equilibrium level and does not make any pressure on the inflationary processes.

Fiscal policy in Q2 2019 did not contribute to creation of inflationary pressure either.

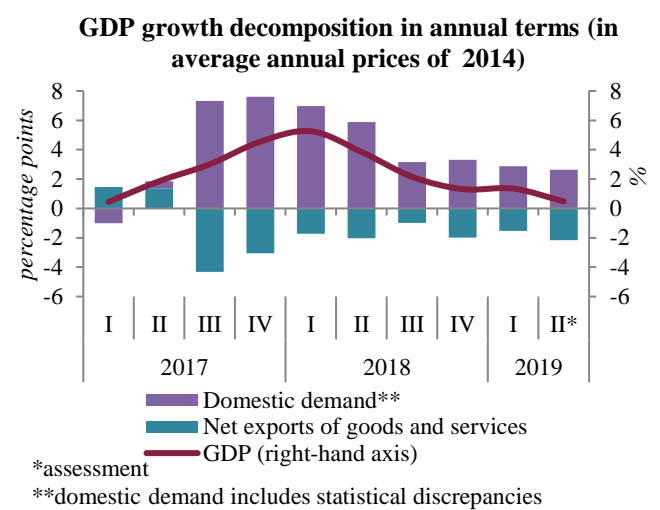
According to the estimation, growth rates of budget expenditures did not exceed the growth rates of domestic demand (about 10% in nominal terms).

The surplus of consolidated budget in national currency observed in May-April amounted to 7.4% to GDP, in Q1 2019 – 4% to GDP.

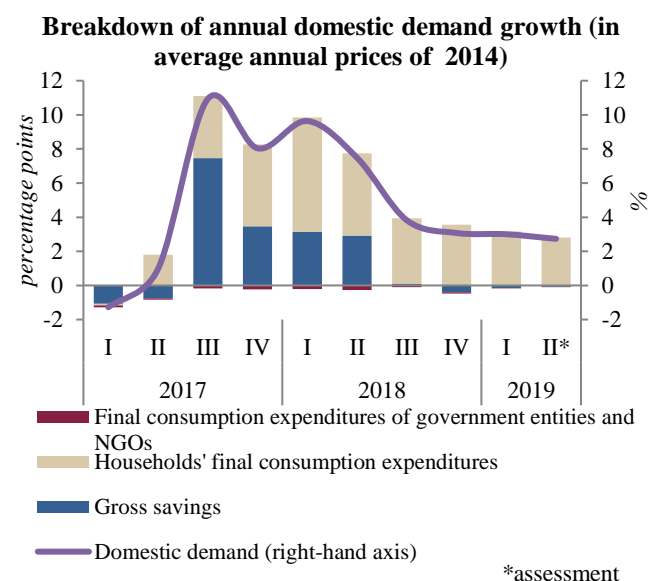
The share of current expenditures over April-May 2019 decreased by 3 percentage points against Q1 2019 from 90.2% down to



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



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87.1%.

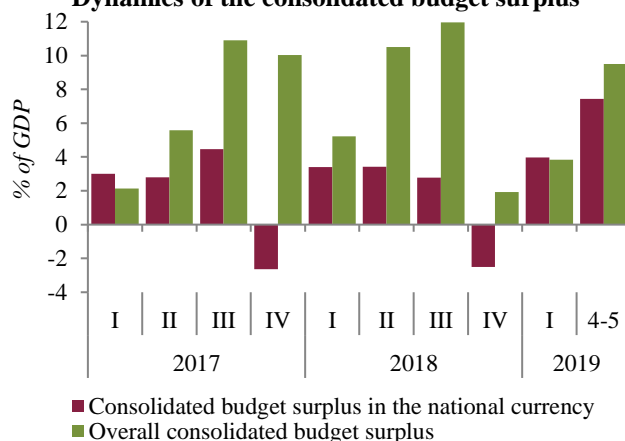
Tax policy in the area of excises in 2019 Q2 did not change. With that, implementation of the effect from the increase on alcohol and tobacco products excises rates that started in Q1. The direct effect on the general dynamics of the consumer prices was insignificant.

Dynamics of real retail turnover and real consumer lending in annual terms



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

Dynamics of the consolidated budget surplus



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

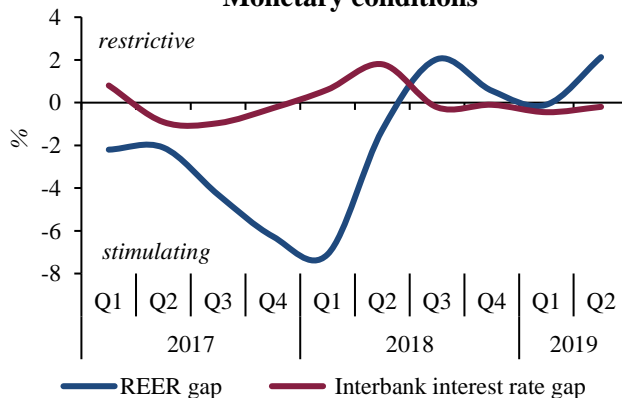
4. Monetary conditions and financial market

Monetary conditions reflecting the aggregate effect of interest rates and exchange rates on the economy in 2019 Q2 were characterized as close to neutral. 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.

Economy's interest rates level in the reporting period was correspondent to the current economic situation.

The refinance rate was preserved at 10 % per annum (effective from June 27, 2018). The symmetry of interest rates band on instruments of the National Bank relative to the refinancing

Monetary conditions



Source: the National Bank's calculations

rate was ensured. The rate on standing facilities aimed at maintaining liquidity remained at the level of 11.5 % per annum. The rate on standing facilities aimed at withdrawing liquidity remained at 8.5 % per annum.

As a result, the average rate for the intraday interbank market approached the refinancing rate and amounted to 10.4 % per annum in June 2019 (10.2 % per annum in March 2019).

Deposit market rates were characterized by positive dynamics, ensuring the attractiveness of ruble savings. In June 2019, the interest rate on new term bank deposits of natural persons in national currency was 10.5 % per annum (in March 2019 - 10.1 % per annum).

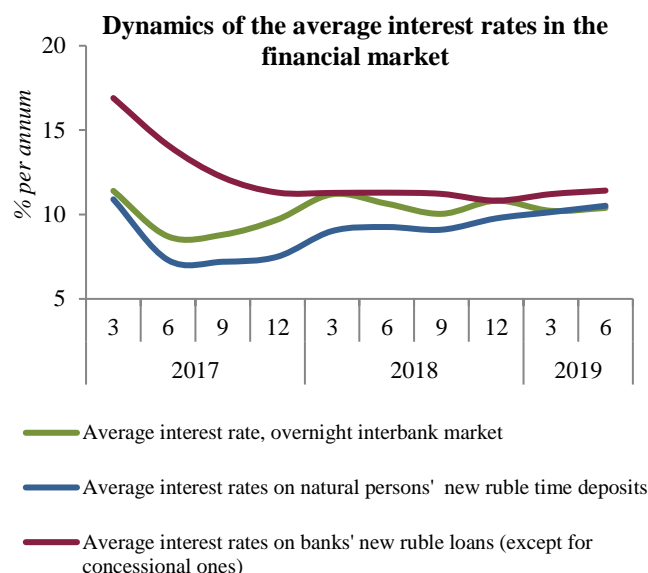
In June 2019, the average interest rate on new bank loans in national currency (excluding loans provided on concessional terms) increased by 11.4% per annum, having increased by 20 basic points over the quarter.

The annual increase in the average broad money supply in June 2019 totaled 12.4 %. With that the improvement of the structure continued: ruble component increased up to 40.6% (38.8% in March 2019).

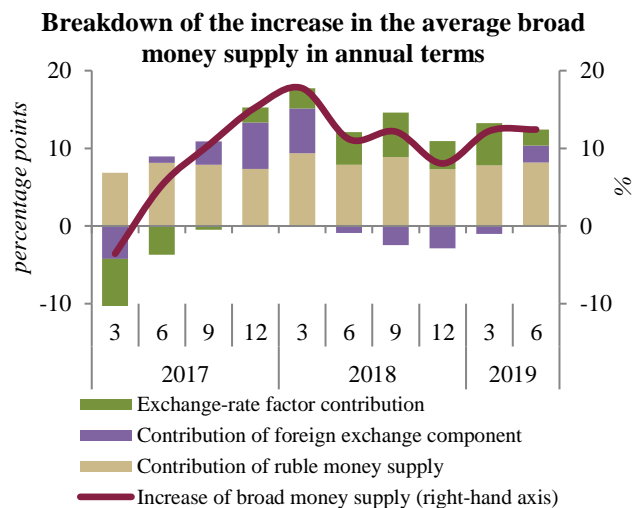
In June 2019, the average banks' and the Development Bank's claims on the economy increased by 12.5 % in the annual terms. Lending in national currency was growing rapidly: annual growth amounted to 18.6% in June. Annual growth rates in foreign currency were significantly lower — 3 % in the dollar equivalent.

As a result, the relative share of the banks' and the Development Bank's claims on the economy increased since the beginning of the year by 2 percentage points and as at July 1, 2019 totaled 53.6% in the total volume of claims of banks and the Development Bank.

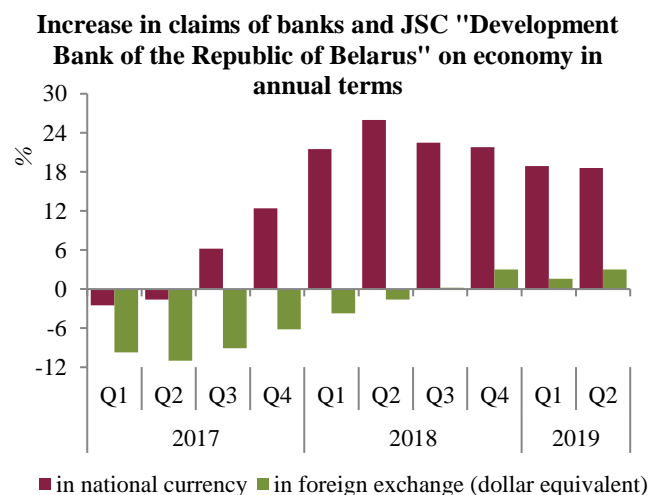
Despite a certain appreciation and insignificant deviation towards over appreciation, the real effective exchange rate of



Source: the National Bank



Source: the National Bank's calculations

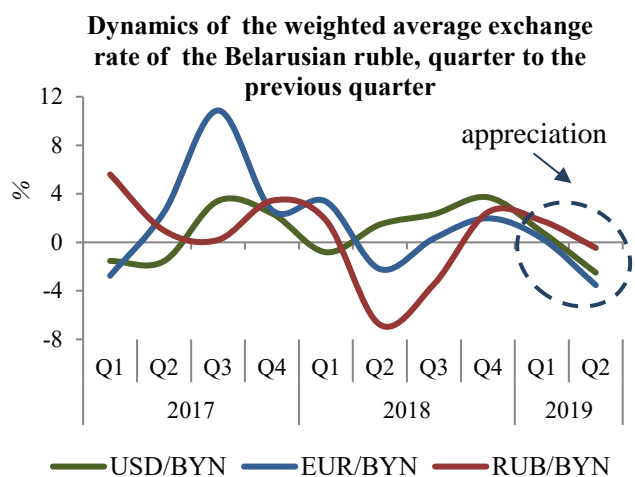


Source: the National Bank

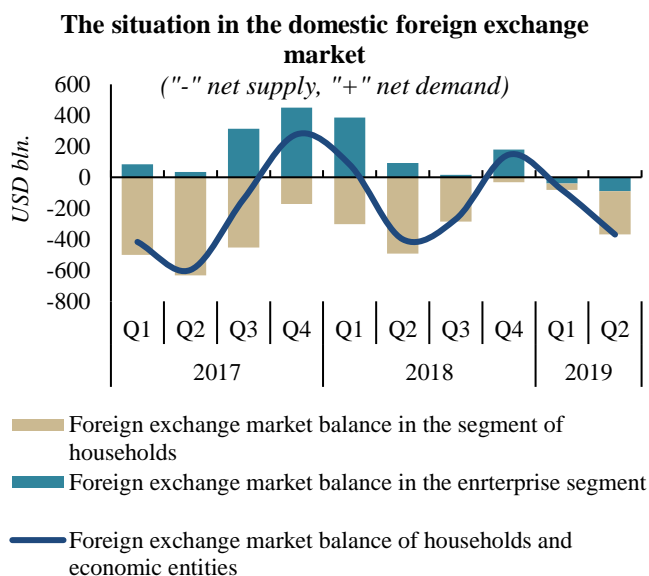
the Belarusian ruble in 2019 Q2 was close to its equilibrium level.

Nominal appreciation of the Belarusian ruble against US dollar totaled 2.5%, against euro— 3.5%, against the Russian ruble – 0.5%¹. This was due to the net supply of foreign currency was formed in the domestic foreign exchange market.

The main volume of net supply was formed in the segment of households. In Q2, economic entities remained the source of foreign exchange net sale.



Source: the National Bank



Source: the National Bank

¹ The calculations are made using the average weighted rate of the Belarusian ruble against the currencies of the main trade partners.