

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

2019 Q3

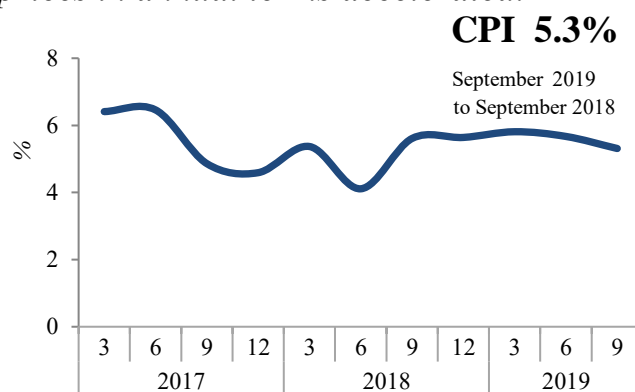
In 2019 Q3, the annual inflation slowed down. Consumer price growth in September 2019 amounted to 5.3 percent in annual terms, approaching the target set for 2019.

The deceleration of annual dynamics in the reporting quarter is characteristic of core inflation, as well as regulated prices and tariffs. At the same time, high price volatility in the fruit and vegetable market continued: seasonal prices in annual terms accelerated.

Annual trend inflation decreased, which as a whole indicates the general direction of fundamental macroeconomic factors towards ensuring consumer price growth within the target parameter.

Economic activity remained moderate and did not exert pressure on inflationary processes.

Monetary conditions, reflecting the combined effects of interest rates and the exchange rate on the economy, generally remained neutral.



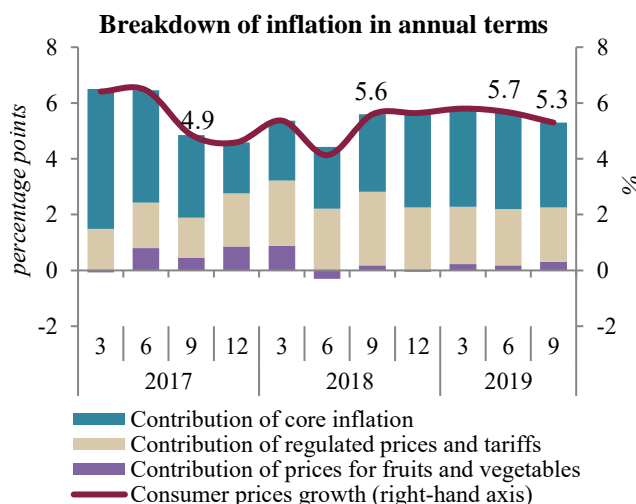
Source: National Statistical Committee's data

1. Consumer price index dynamics

The influence of short-term factors on inflationary processes persists, however the level of their impact is gradually decreasing.

Over the quarter, annual core inflation decreased by 0.5 percentage points and totaled 4.3 percent in September 2019. The annual growth rate of the price indicator slowed down in the context of absence of a stimulating effect on the part of monetary policy measures, maintenance of moderate dynamics of domestic demand, as well as further exhaustion of the influence of previously existing short-term factors, primarily, last year's cereal crops failure.

In particular, the annual increase in prices for meat products decreased by 2.8 percentage points, which, taking into account the significant weight of this position in consumer spending, ensured the main contribution to the



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

deceleration in core inflation. Prices for other food products, in the production of which grain processing products are used, also slowed down compared to the previous quarter. In addition, prices for the majority of imported consumer goods rose less intensively.

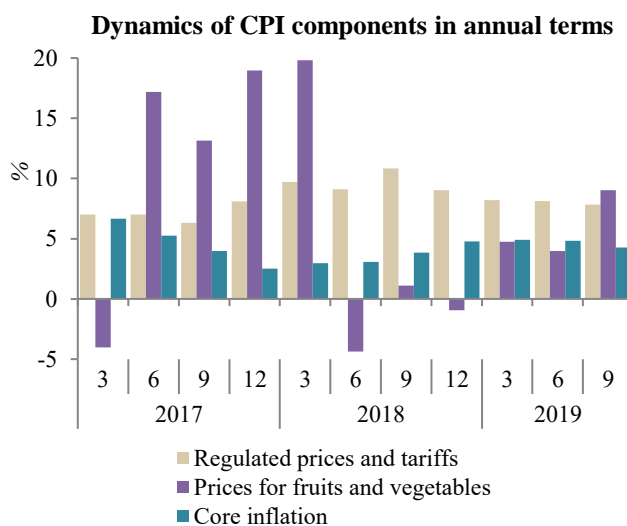
Among other things, the formation of moderate dynamics of core inflation was facilitated by easing the pressure on the costs of enterprises (primarily, transport and agricultural industries) in terms of fuel costs due to its less intense price growth in the domestic market.

The slowdown in the trend inflation and the average price growth rate serve to confirm the termination of the influence of previously available shocks. Thus, the first indicator in September 2019 stood at 4.2 percent in annual terms (4.5 percent in June 2019), the second one – 4 and 4.2 percent, respectively.

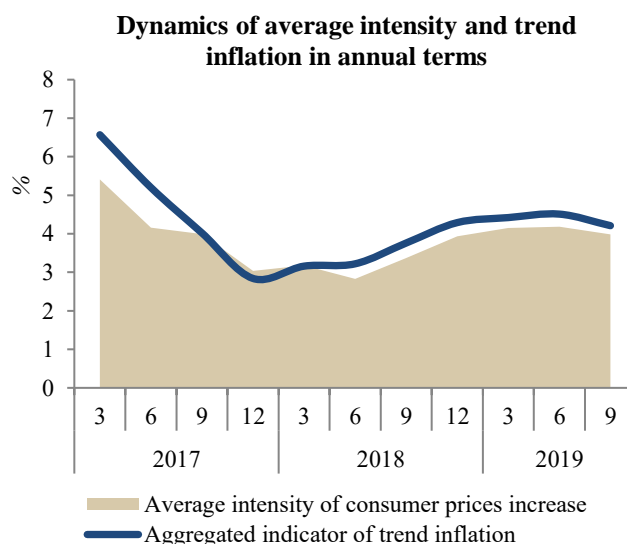
Against the background of a general deceleration of inflationary processes in 2019 Q3, a more homogeneous increase in prices in the consumer market was observed compared to the previous quarter. The share of goods and services, the prices and tariffs for which in annual terms grew by less than 5 percent, increased to 66 percent in September 2019 (63 percent in June 2019).

The annual rate of growth in regulated prices and tariffs over the past quarter reduced by 0.3 percentage points and accounted for 7.8 percent in September 2019. This is due to a more restrained increase in the cost of higher and secondary special education services this year, as well as a more moderate growth of retail fuel prices given the dynamics of world oil prices. Nevertheless, the increase in prices and tariffs on most regulated positions, is higher than the forecast parameters of core inflation and the consumer price index.

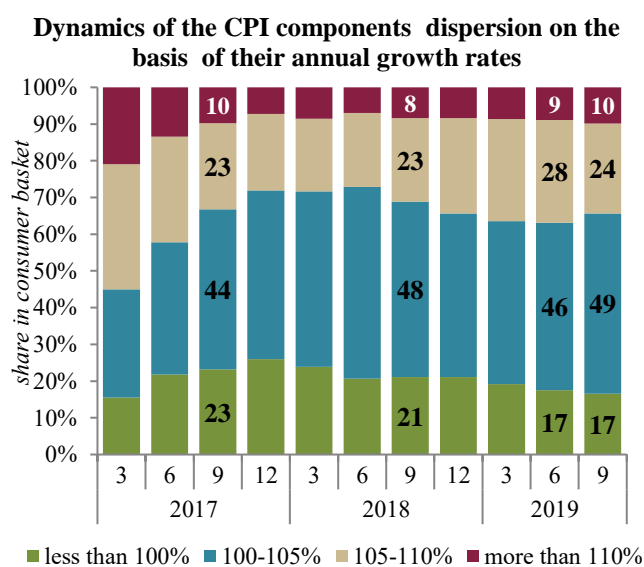
The growth in prices for fruits and vegetables in Q3 accelerated from 4 to 9 percent in annual terms. The dynamics of fruit prices



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



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contributed to this fact to the greatest extent: their annual growth in September 2019 stood at 9.3 percent (1.1 percent in June 2019). In addition, the acceleration of seasonal prices was facilitated by a more intensive rise in price of fresh cucumbers and tomatoes owing to a reduction in their supply as a result of adverse weather conditions.

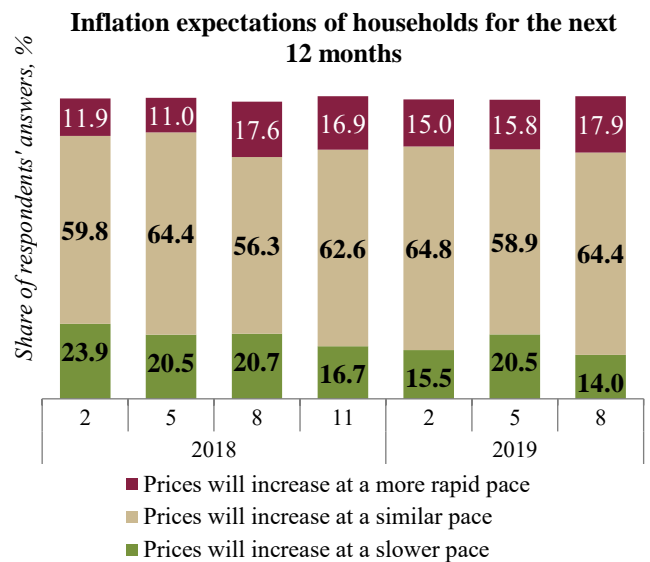
The high price volatility in the market of fruits and vegetables, the growth in regulated prices and tariffs at the rates exceeding the forecast, as well as the previously formed significant increase in prices for food products of everyday demand, were conducive to maintaining the economic agents' inflationary expectations in Q3 2019 at a rather high level.

According to the latest survey (August 2019), the estimate of the expected increase in prices in the next 12 months was 13.1 percent (11.5 percent in May 2019). The inflation experienced by the respondents over the past 12 months amounted to 12.8 percent in August 2019, a growth by 0.6 percentage points relative to the May 2019 estimate.

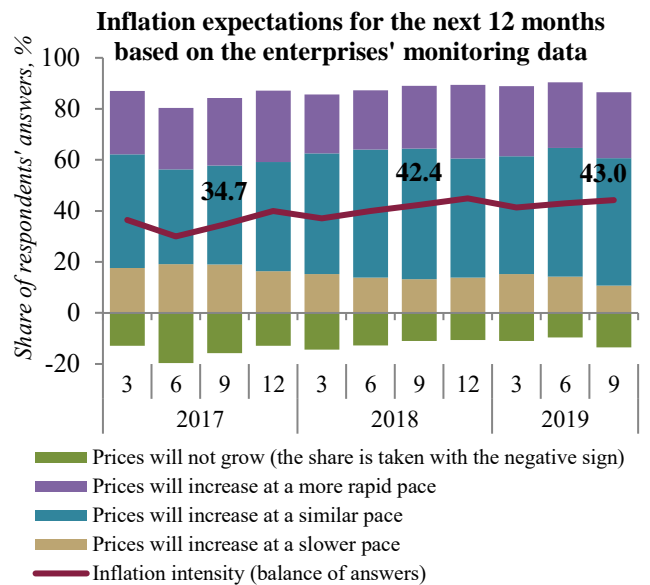
According to the monitoring of enterprises' inflationary expectations in September 2019, the share of respondents expecting prices to accelerate in the next 12 months remained virtually unchanged and stood at 25.9 percent (25.7 percent in June 2019).

2. Dynamics of other price indicators

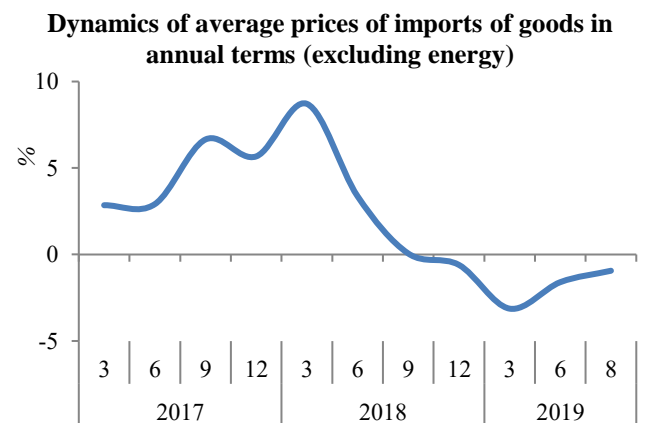
In 2019 Q3, the restraining effect of imported inflation on the dynamics of domestic market prices remained. The slowdown in producer prices of industrial products continued, as a result, there was no significant pressure on consumer prices from the industrial sector. At the same time, the growth rate of agricultural producer prices was formed at an elevated level.



Source: the National Bank



Source: the National Bank



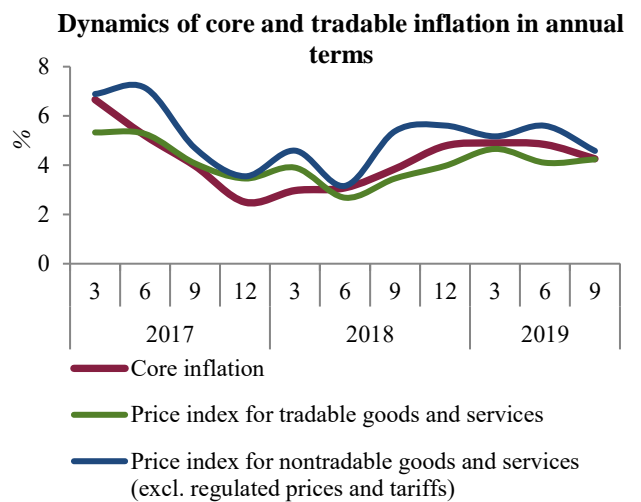
Source: National Statistical Committee

The annual growth rate of average import prices (excluding energy) in Q3 remained negative. Their decline in August 2019 amounted to 0.9 percent compared to the corresponding month of the previous year. Under the conditions of the Belarusian ruble strengthening against the currencies of the main trading partners in the reporting quarter, such dynamics of import prices constrained prices in the domestic consumer market.

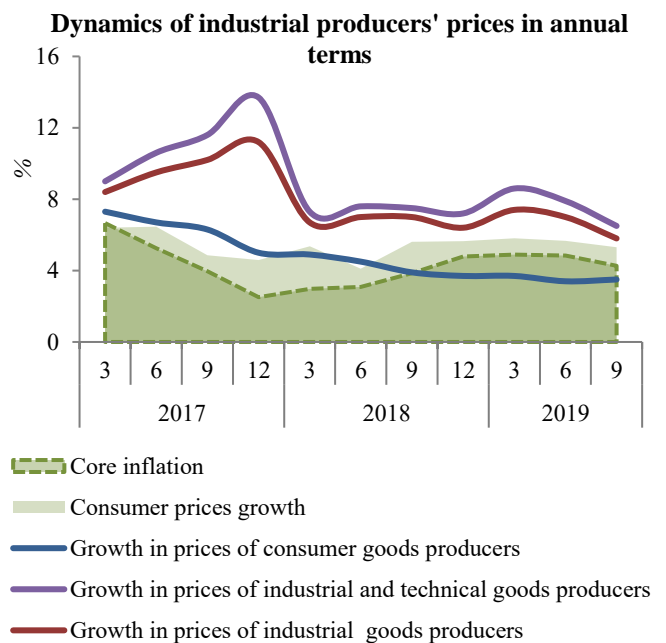
In Q3, the growth rate of prices for traded goods practically did not change: their annual increase in September 2019 totaled 4.2 percent (4.1 percent in June 2019). At that, prices for non-tradable goods, with the exception of regulated positions, slowed down from 5.6 percent in June 2019 to 4.6 percent in September 2019.

The deceleration in industrial producer prices continued. In Q3, their annual growth rate decreased by another 1.2 percentage points and amounted to 5.8 percent in September 2019. Prices for technical and industrial products decelerated to a greater extent in annual terms - from 7.9 percent in June to 6.5 percent in September 2019. The annual increase in prices for manufactured consumer goods as a whole remained at the level of the previous quarter and stood at 3.5 percent in September 2019 (3.4 percent in June 2019).

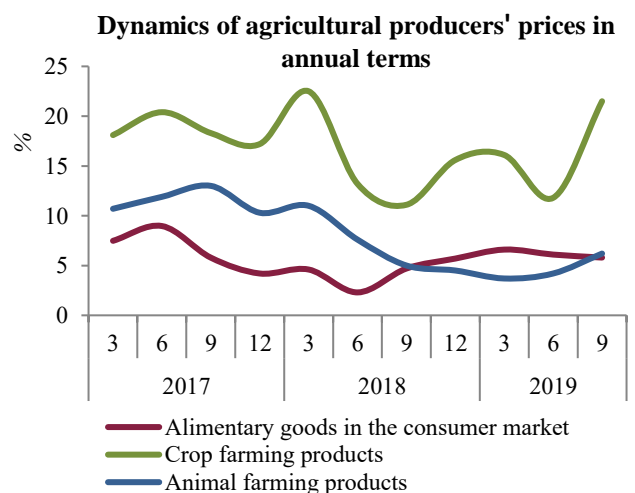
The annual growth rates of agricultural producer prices in Q3 remained high. Thus, the annual increase in prices for crop production in September accounted for 21.5 percent (11.8 percent in June 2019). Livestock producers' products in September 2019 grew in annual terms by 6.2 percent (4.2 percent in June 2019). The maintenance of high growth rates of agricultural producers' prices, among other things, was facilitated by the fact that the volume of production of grain and leguminous crops did not fully recover after a poor harvest in 2018.



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



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



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

For information:

As of October 1, 2019 to October 1, 2018, the gross harvest of grain and leguminous crops (without corn) raised by 23.9 percent. The decrease a year earlier amounted to 31.3 percent.

3. Supply and demand

2019 Q3 witnessed a recovery in the rate of economic growth after its decline in 2019 Q2. The economic growth rates were at the level close to equilibrium.

The resumption of Russian oil supplies in 2019 Q3 contributed to the stabilization of net exports of goods and services and, as a result, the restoration of economic growth in the reporting quarter to the level of 2019 Q1.

The real GDP grew, according to estimates, from 0.5 percent in 2019 Q2 to 1.3 percent in 2019 Q3 compared to the corresponding quarter of the previous year.

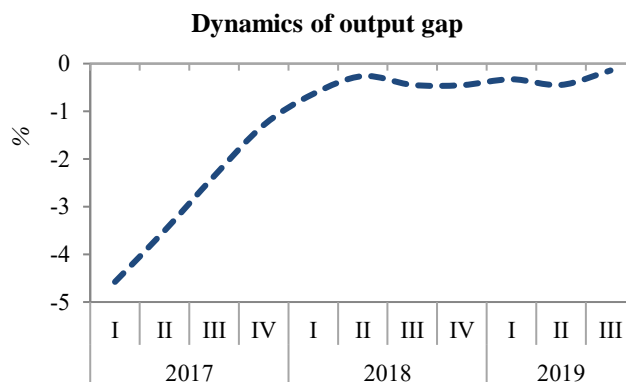
Economic growth continued to be driven by dint of domestic demand, with a significant reduction in the negative impact of net exports of goods and services.

At that, a slowdown in the population’s consumer activity is observed. The increase in real retail turnover in 2019 Q3 stood at 3.7 percent compared to the corresponding quarter of the previous year, 5 percent – in 2019 Q3.

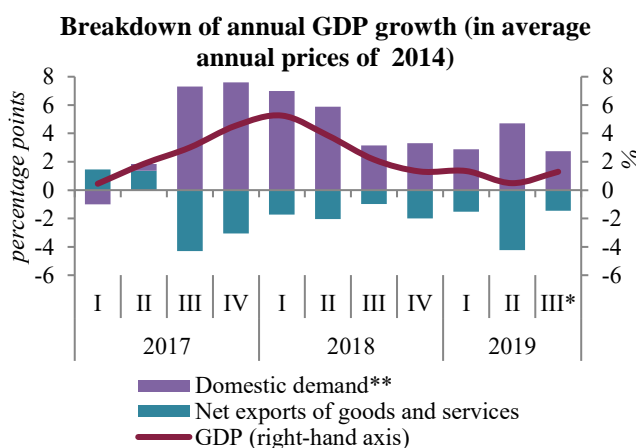
In 2019 Q3, the growth rate of non-food trade decelerated to 5.1 percent in annual terms (7.1 percent in 2019 Q2). In the food segment, the annual increase in retail turnover in the reporting quarter amounted to 2.3 percent compared to 2.7 percent in 2019 Q2.

The nature of fiscal policy remained deterrent in relation to the growth of domestic demand. At the same time, it has become less constraining compared to the previous quarter.

The consolidated budget in 2019 Q3 (according to preliminary data from the

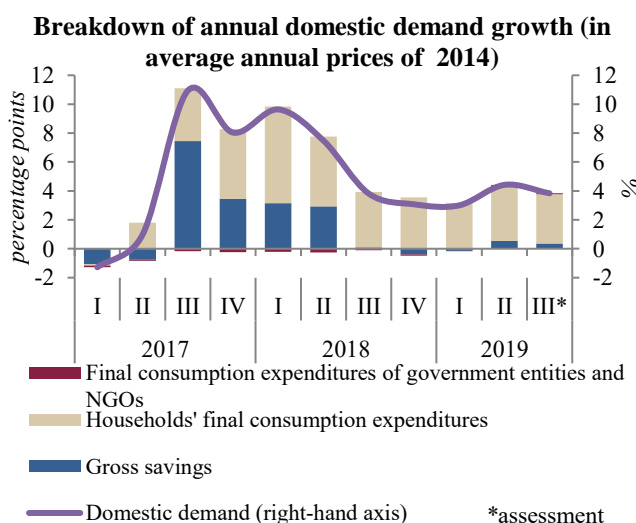


Source: the National Bank’s calculations based on the National Statistical Committee’s data



*assessment
**domestic demand includes statistical discrepancies

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



*assessment
Source: the National Bank’s calculations based on the National Statistical Committee’s data

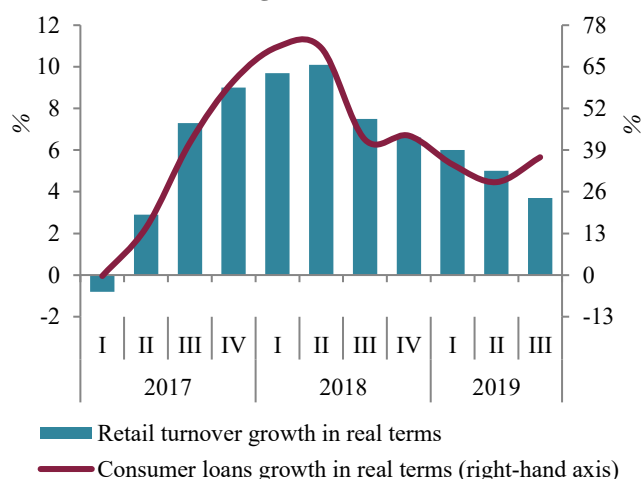
Ministry of Finance) was executed with a surplus of 3 percent of GDP. Compared to 2019 Q2, the consolidated budget surplus declined by 1.1 percentage points.

In 2019 Q3, the contribution of budget expenditures to the gain in domestic demand as a whole slightly raised compared to the previous quarter, due to an increase in final consumption expenditures. A significant contribution to the growth in final consumption was made by the social expenditures of the budget and Social Protection Fund (expenses for the payment of pensions, benefits, scholarships and other transfers to the population), the growth rate of which in general stood at 10.3 percent in real terms, ensuring an increment in government spending on final consumption in the amount of 4.7 percentage points.

At the same time, the contribution of budget capital expenditures to gross accumulation had a negligible negative value.

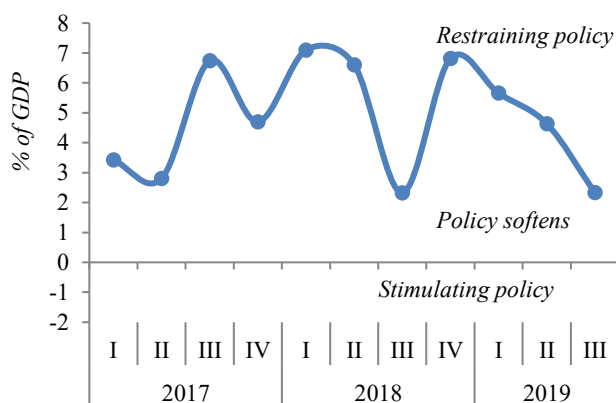
In general, fiscal policy in 2019 Q3 did not exert pressure on inflationary processes.

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



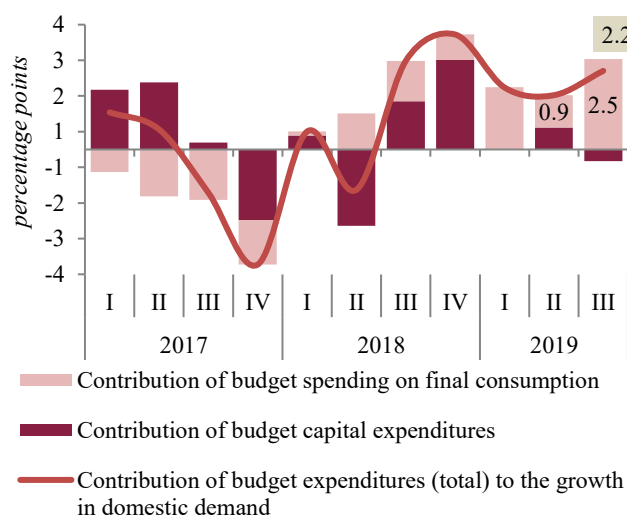
Source: National Statistical Committee, the National Bank's calculations

Cyclically adjusted primary fiscal balance



Source: the National Bank's calculations based on the data from the Ministry of Finance and the National Statistical Committee

Dynamics of contribution of budget expenditures to the growth of domestic demand



Source: National Bank calculations based on data from the National Statistical Committee, the Ministry of Finance and the Social Protection Fund

4. Monetary conditions and financial market

In 2019 Q3, the money supply dynamics did not exert inflationary pressure and at the same time contributed to the maintenance of business and investment activities. The impact of interest rates on the economy is assessed as a neutral one. The real exchange rate remains near its equilibrium level.

As inflationary processes slowed down in 2019 Q3, the National Bank resumed lowering interest rates on its instruments.

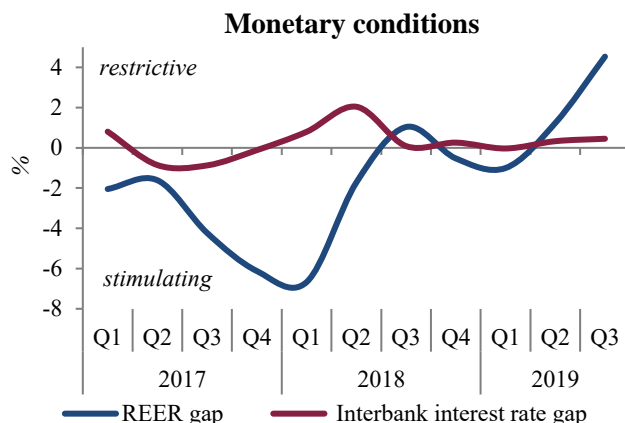
Given the forecasted dynamics of inflation, since August 14, 2019, the National Bank reduced the refinancing rate from 10 to 9.5 percent per annum, the rate on standing facilities designed to maintain liquidity from 11.5 to 10.75 percent per annum, the rate on standing facilities designed to withdraw liquidity - from 8.5 to 8.25 percent per annum.

The average rate of the intraday interbank market remained near the refinancing rate and accounted for 9.9 percent per annum in September 2019 (10.4 percent per annum in June 2019).

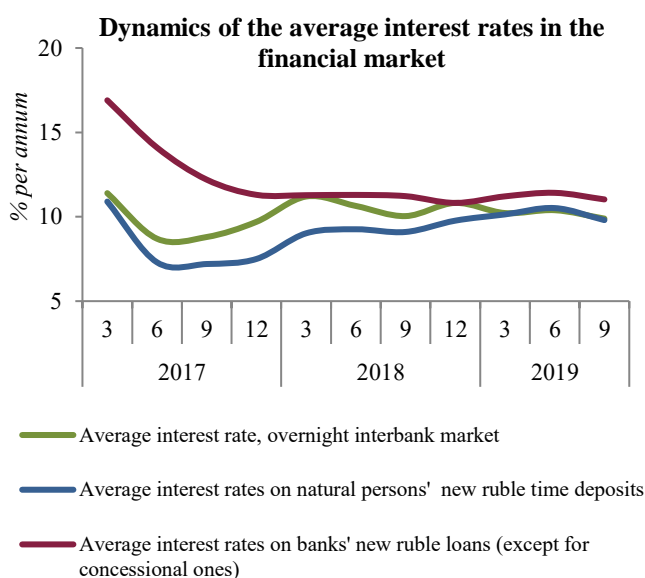
As a result, interest rates in the credit and deposit market began declining. The existing dynamics of interest rates generally corresponds to the current economic situation.

The average interest rate on banks' new credits in national currency (excluding loans provided on soft terms) in September 2019 amounted to 11.03 percent per annum, decreasing by 0.4 percentage points for the quarter.

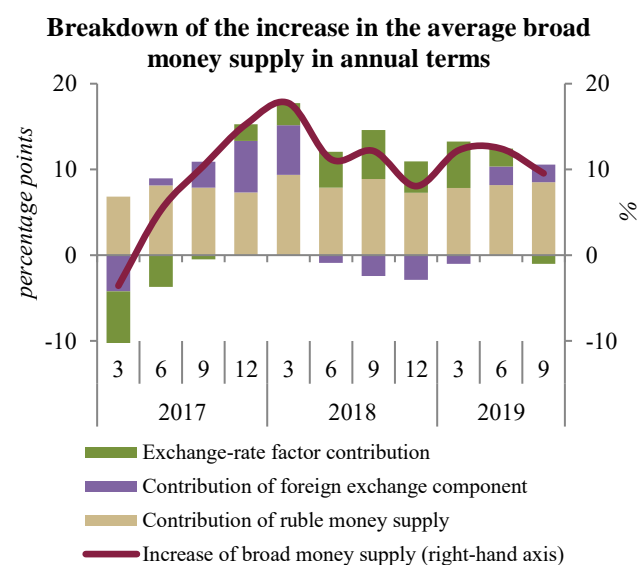
The annual increase in the average claims of banks and the Development Bank to the economy in September 2019 accounted for 9.5 percent. Lending to the economy in Belarusian rubles grew more rapidly than in foreign exchange: the annual growth in September 2019 amounted to 17.1 percent compared to 3.4 percent in USD equivalent.



Source: the National Bank's calculations



Source: the National Bank



Source: the National Bank's calculations

Since the beginning of the year, the share of claims of banks and the Development Bank in the national currency increased by 2.8 percentage points and as of October 1, 2019 amounted to 54.5 percent of the total claims of banks and the Development Bank.

The rates of lending to the economy were comparable to the growth in money supply.

The annual growth of the average broad money supply in September 2019 totaled 9.6 percent. At the same time, measures taken in the framework of the economy de-dollarization contributed to the improvement of its structure: the ruble component increased to 42.7 percent (40.6 percent in June 2019).

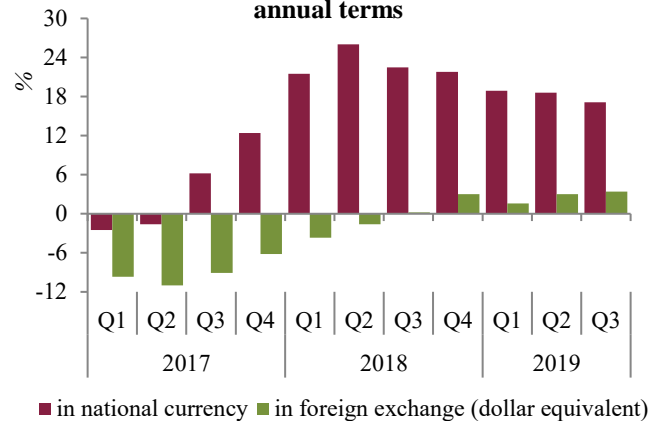
In line with the data for September 2019, the average term ruble deposits of the population for the year grew by 21.2 percent. In the structure of natural persons' term ruble deposits, the share of irrevocable deposits continued to increase, of which the share of long-term deposits raised to 76.5 percent.

The continued profitability of ruble deposits maintains a stable situation in the deposit market. In September 2019, the average interest rate on natural persons' new term bank deposits in the national currency corresponded to the level of December 2018 – 9.8 percent per annum. At that, compared to June 2019, it decreased by 0.7 percentage points.

In addition to the National Bank's interest rate policy, the decrease in the interest rate on term ruble deposits of the population in 2019 Q3 was also facilitated by the growth in the surplus of the banking sector's ruble liquidity due to the positive balance of the National Bank's purchase and sale of foreign exchange in the domestic foreign exchange market.

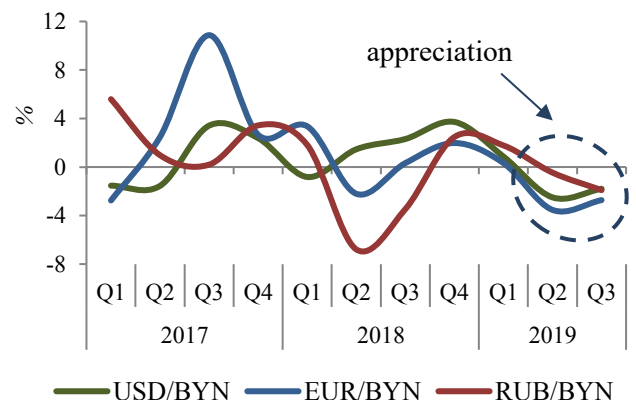
A significant amount of foreign currency supply formed in the domestic foreign exchange market created the prerequisites for the Belarusian ruble strengthening. In 2019 Q3, the Belarusian ruble's nominal appreciation

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



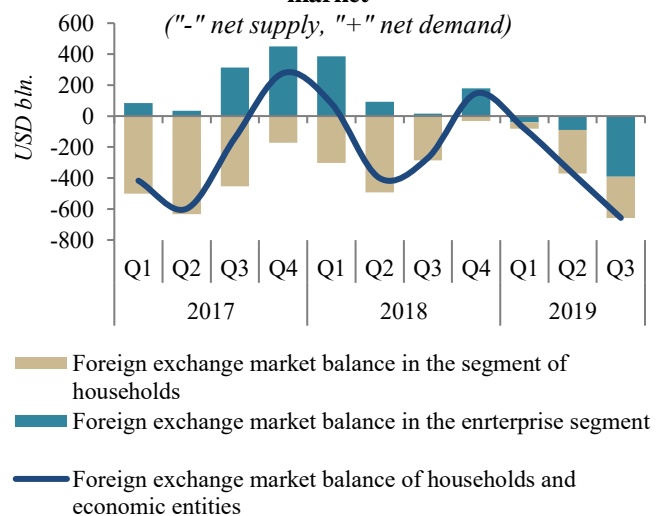
Source: the National Bank

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

amounted to 1.8 percent against the US dollar, 2.7 percent – the euro, and 1.9 percent - the Russian ruble¹.

Despite the strengthening, the real exchange rate in the reporting period is near its equilibrium level.

¹ The weighted average exchange rate of the Belarusian ruble against the currencies of the main trading partners was used in the calculations.