

Consumer prices, tariffs and factors of changes therein

2020 Q1

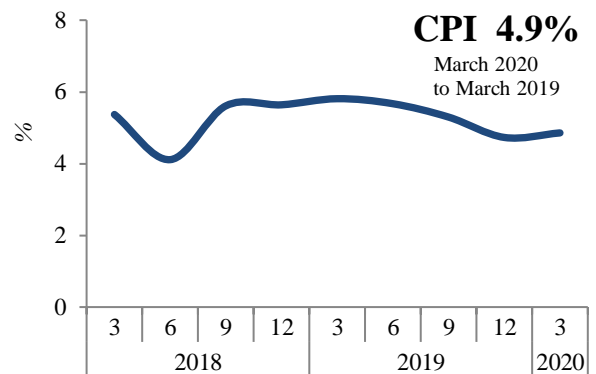
In 2020 Q1, annual inflation accelerated as a result of temporary adverse effects of external factors. Inflation in March 2020 amounted to 4.9 percent in annual terms and remained in line with the target.

The acceleration of annual inflation was due to the dynamics of core inflation. The annual growth rates in regulated prices and tariffs remained at the level of the previous quarter, the increase in prices for fruits and vegetables slowed down.

A high degree of uncertainty regarding the further economic developments under the conditions of an unfavorable epidemiological situation led to an increase in inflation expectations of economic entities.

The economic activity decelerated, while maintaining close to neutral in relation to inflation.

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

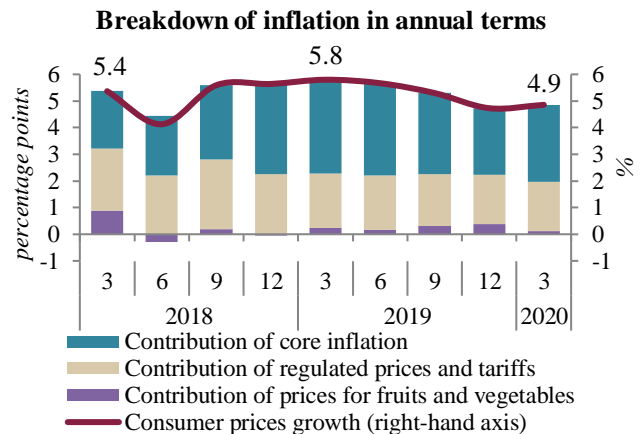


1. Consumer price index dynamics

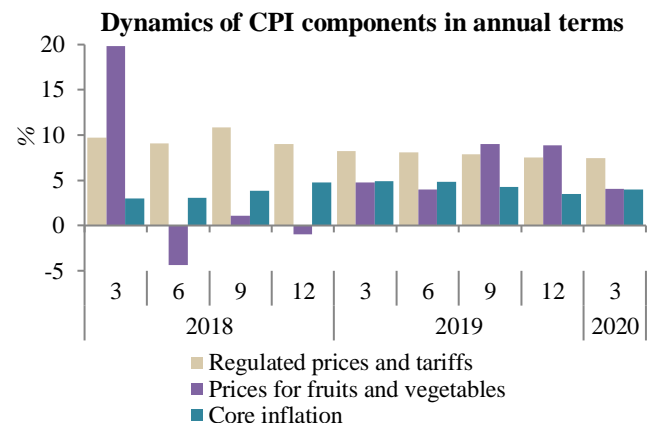
The beginning of 2020 Q1 was characterized by inflation slowdown. The negative impact of external factors formed in March led to a subsequent acceleration of core inflation.

The acceleration of core inflation in 2020 Q1 was primarily affected by an increase in consumer demand for food products with a long shelf life, as well as certain basic necessities. It was caused by uncertainty about the future situation related to the introduction of restrictive measures by many countries to combat the spread of coronavirus infection COVID-19.

The depreciation of the national currency formed after the weakening of the Russian ruble (given the high share of the Russian Federation in foreign trade in goods and services) contributed to the growth of devaluation and inflation expectations in the economy.



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

Taken together, these factors led to core inflation acceleration in March 2020 to 4 percent in annual terms (3.5 percent in December 2019).

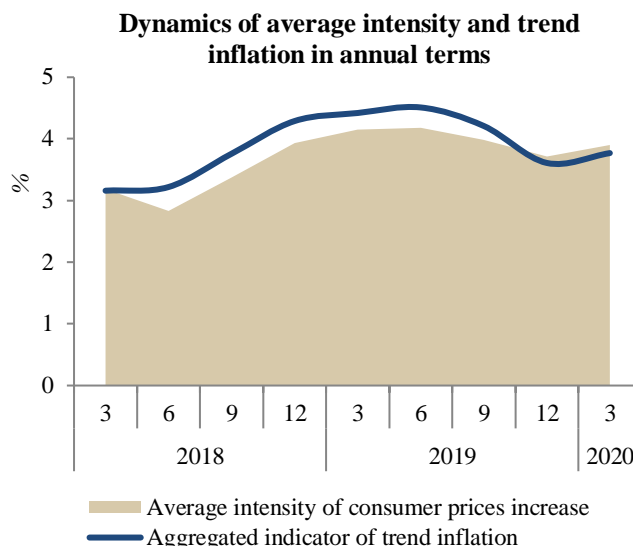
In the reporting quarter, the annual trend inflation grew by 0.2 percentage points to 3.8 percent. The average intensity of price growth stood at 3.9 percent. This confirms the accelerated rise in prices and tariffs of most consumer basket items.

The annual growth rate of regulated prices and tariffs in March 2020 amounted to 7.5 percent, as in December 2019. The increased cost of housing and communal services, automotive fuel, communication services, higher education services and tobacco products made the biggest contribution.

2020 Q1 witnessed a slowdown in prices for fruits and vegetables. The annual price increase in March 2020 amounted to 4 percent (8.9 percent in December 2019) and was due to a decline in the annual growth rate of prices for most types of vegetables. At the same time, fruit prices continued to show outstripping growth rates: by the end of the quarter their annual growth exceeded 20 percent.

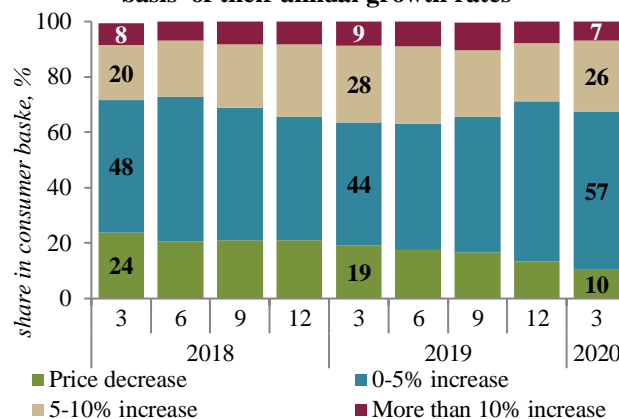
With the inflation accelerating at the end of 2020 Q1, the homogeneity of growth in consumer prices deteriorated. The share of goods and services with the annual growth of prices and tariffs of less than 5 percent, totaled 67 percent in March 2020 (71 percent in December 2019).

On the background of increased uncertainty regarding future prospects in the economy, the inflationary expectations of enterprises in 2020 Q1 increased. The difference between the responses of respondents expecting further price increases and those expecting further price reduction (balance of responses) amounted to 55.4 percent compared to 43.8 percent in December 2019.



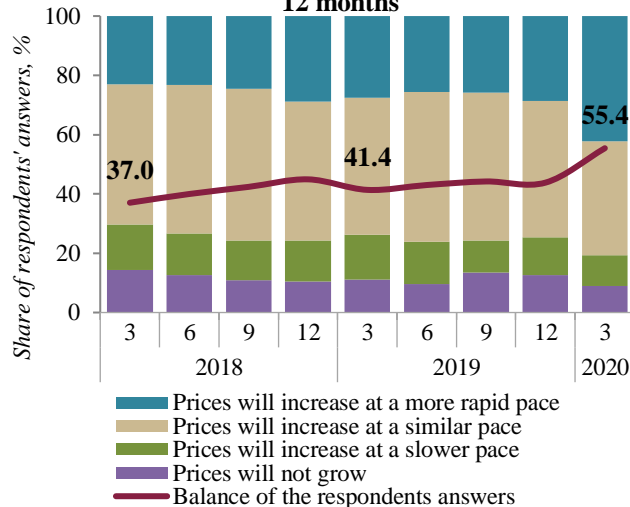
Source: the National Bank's calculations based on the National Statistical Committee's data

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



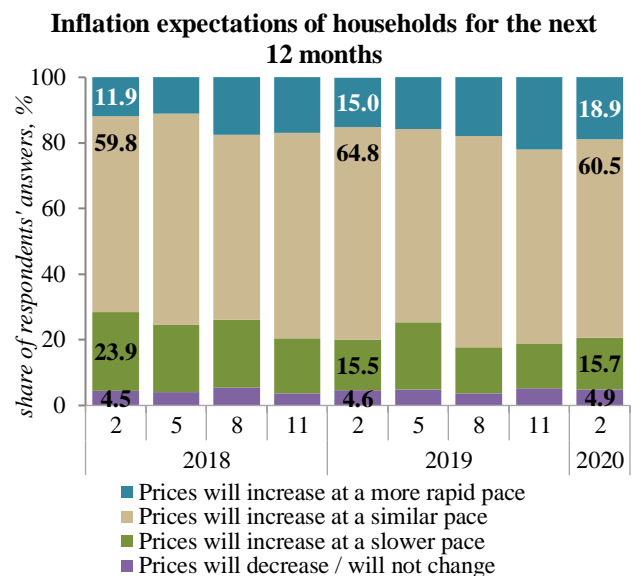
Source: the National Bank's calculations based on the National Statistical Committee's data

Inflation expectations of enterprises for the next 12 months



Source: the National Bank

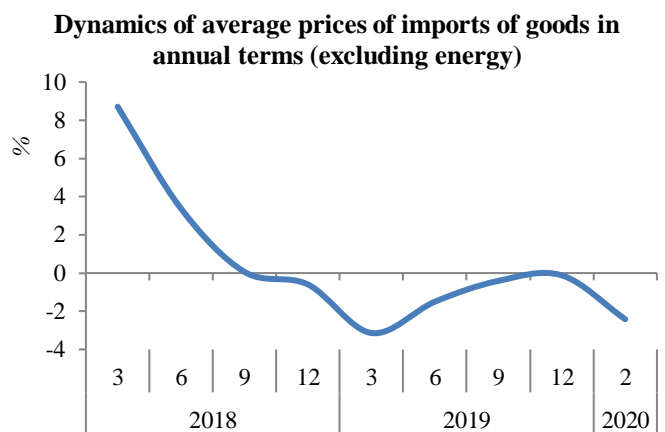
Inflationary expectations of the households remained high. According to the latest survey (February 2020), the estimate of the expected price increase over the next 12 months accounted for 11 percent.



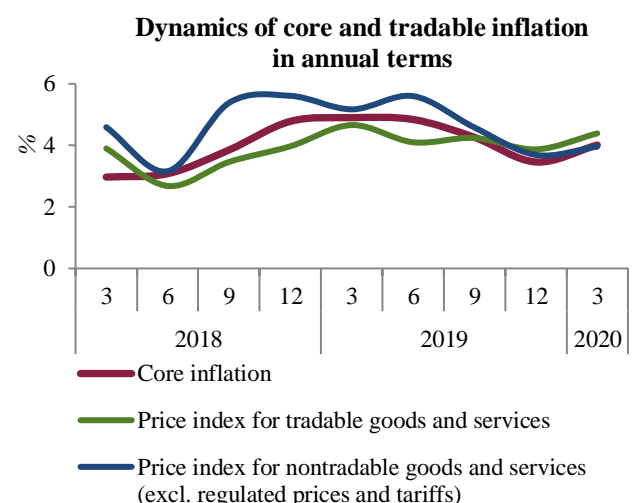
2. Dynamics of other price indicators

In 2020 Q1, the disinflationary effect of lower import prices was offset by the Belarusian ruble depreciation. There was no inflationary effect on the consumer market from the industrial sector. At the same time, the pressure from producer prices of agricultural products on consumer prices for certain food items remained.

In February 2020, the average prices of imports of goods (excluding energy) decreased in annual terms by 2.4 percent. However, the weakening of the Belarusian ruble leveled the disinflationary effect of this factor.



Introduction of restrictive measures by most countries affected intercountry trade flows. Together with the influence of the exchange rate factor it caused acceleration of tradable inflation. The annual growth rate of prices for traded goods in March 2020 stood at 4.4 percent compared to 3.9 percent in December 2019. Prices for non-tradable goods (with the exception of regulated positions) did not grow so intensively.



The growth in industrial producer prices accelerated slightly to 4.6 percent in March 2020 (4.4 percent in December 2019) due to higher prices for industrial and technical products. The increase in prices of consumer

goods producers continued to slow down. In general, the dynamics of growth in industrial producer prices, including consumer goods, in the reporting quarter was lower than the dynamics of growth in consumer prices. This indicates the lack of pressure on inflation from the industrial sector.

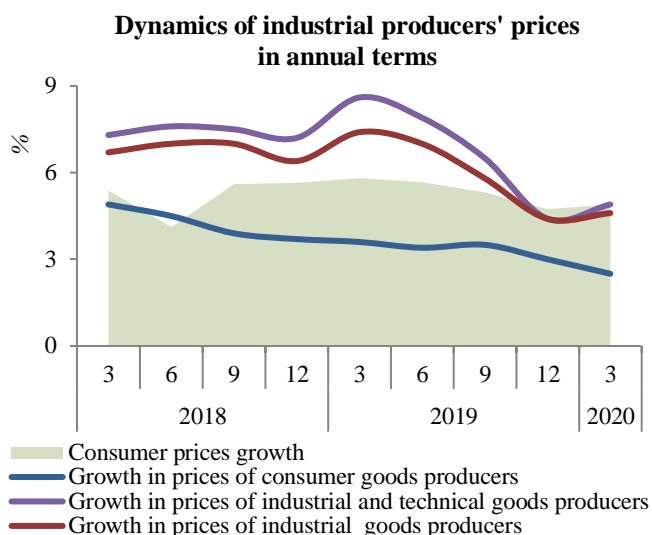
In the reporting quarter, the agricultural sector evidenced a significant slowdown in the growth of prices for crop products with a further increase in prices for livestock products. The deceleration in price dynamics in crop production was due to lower prices of fresh vegetables (mostly cabbage and cucumbers). The annual growth rate of prices for crops during the quarter remained high - more than 30 percent. In livestock production, the acceleration of price growth for raw cow's milk continued - up to 15.3 percent in March 2020 in annual terms. In addition, poultry producer prices rose sharply - by 22.3 percent for turkeys and 8.1 percent for chickens (in December 2019, 0.8 and 2.3 percent, respectively).

As a result, outstripping growth in prices for cereals (10.4 percent), as well as dairy products (7.5 percent) maintains in the consumer market. The dynamics of poultry meat prices in the reporting quarter remained low, however, the current rates of increase in producer prices may lead to its acceleration in the following months.

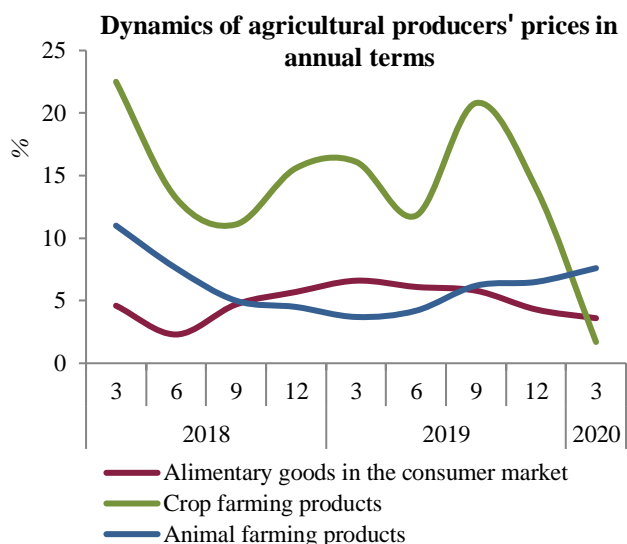
3. Supply and demand

2020 Q1 witnessed a decline in economic growth. To a large extent, this was due to reduced output in export-oriented industries. Economic activity deviated slightly from the medium-term equilibrium. In relation to inflation, economic activity was still close to neutral.

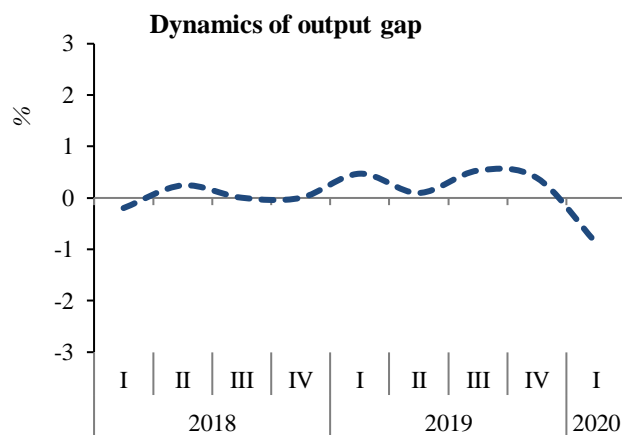
The reduction in real GDP in 2020 Q1 amounted to 0.3 percent compared to the corresponding quarter of the previous year (in 2019 Q4, it grew by 1.6 percent).



Source: National Statistical Committee



Source: National Statistical Committee



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

The temporary suspension of oil refineries export caused by significant shortfalls in Russian oil delivery, low export of potash fertilizers, and a decrease in business activity in the trading partner countries led to a decline in net exports of goods and services in 2020 Q1 and were the main factors of the economic growth slowdown in the reporting period.

Economic growth was supported by domestic demand, primarily, due to an increase in consumer activity.

The retail turnover in real terms grew against the corresponding quarter of the previous year from 2.4 percent in 2019 Q4 to 7.9 percent in the reporting period.

In the structure of retail turnover, the non-food segment developed at the fastest pace - from 1.6 percent in 2019 Q4 to 8.8 percent in 2020 Q1, while food sales in the quarter increased from 3.3 to 6.9 percent.

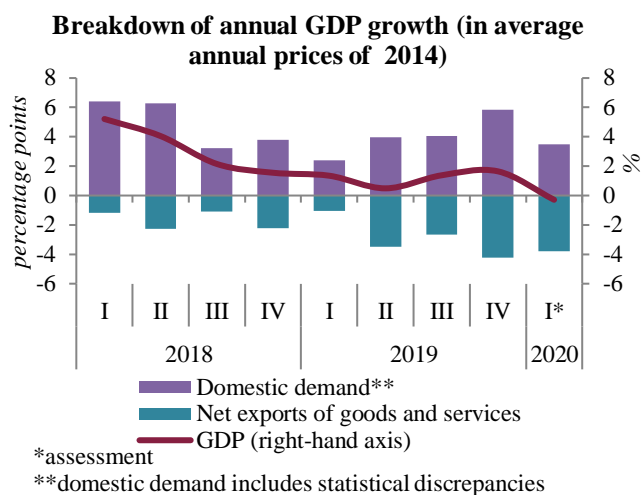
The growth in consumer demand was the reaction of the households to the unfavorable epidemiological situation in the country and the world against the backdrop of increased inflation and devaluation expectations due to the Belarusian ruble devaluation.

High consumer activity was supported by the corresponding dynamics of wages and consumer lending. The growth rate of wages in real terms amounted to 8.9 percent, consumer lending - 18.7 percent (in 2019 Q4 - 6 and 21.8 percent respectively).

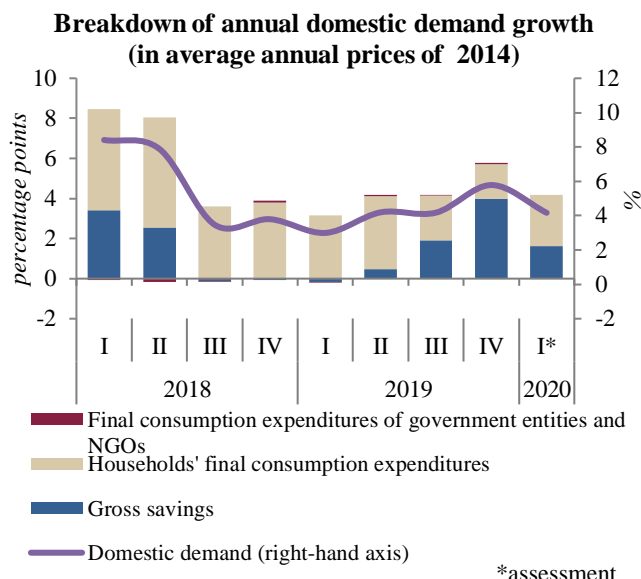
The fiscal policy was neutral with respect to the increase in domestic demand.

However, on the background of growth in expenditures to support the economy (given their traditional decline at the beginning of the year), on the part of fiscal sector operations there was some easing compared to the previous quarter.

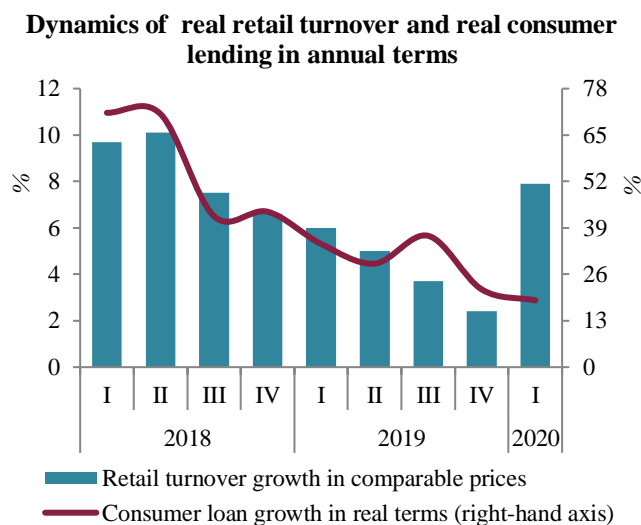
In 2020 Q1, the consolidated budget was executed with a surplus of 0.8 percent of GDP



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



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

(in 2019 Q4, a deficit of 1 percent of GDP was received).

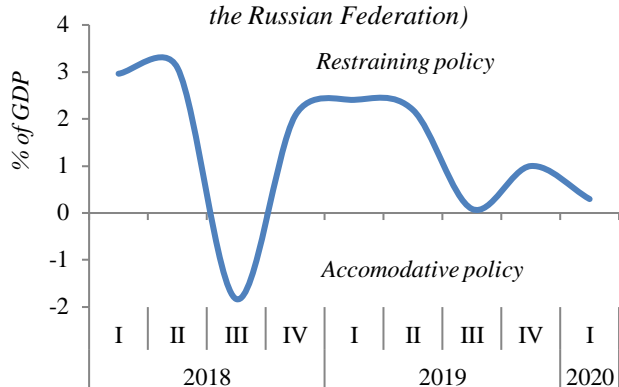
At the same time, there was a significant decrease in the size of the consolidated budget surplus compared to 2019 Q1 from BYN 1.1 billion (3.8 percent of GDP) to BYN 0.3 billion, caused by the reduction in income (by BYN 0.1 billion, or 1.5 percent) and an increase in expenses (by BYN 0.7 billion, or 9.3 percent).

The growth of consolidated budget expenditures contributed to maintaining domestic demand.

The negative contribution of budget expenditures to the growth in domestic demand observed in 2019 Q4 was replaced by a positive one and accounted for 2.4 percentage points in 2020 Q1.

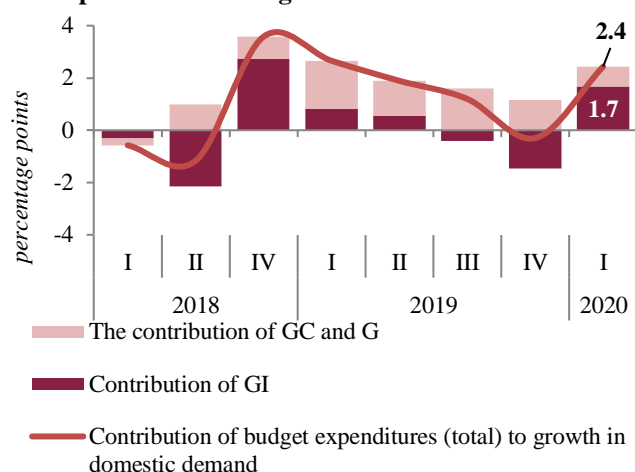
Budget capital expenditures were the main contributor to the increase in domestic demand from the fiscal sector. In general, fiscal policy was inflationary neutral in the reporting quarter.

Cyclically adjusted primary fiscal balance
(including loans and net payments under guarantees, without funds from the budget of the Russian Federation)



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

The dynamics of the contribution of budget expenditures to the growth of domestic demand



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

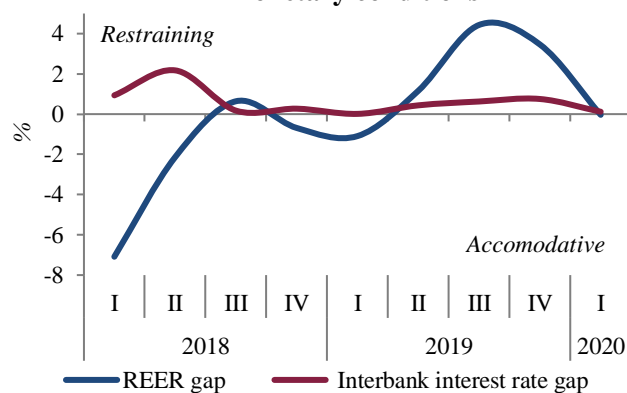
4. Monetary conditions and financial market

The money supply in 2020 Q1 corresponded to the current economic activity. Monetary conditions reflecting the combined effect of interest rates and the exchange rate on the economy were neutral.

Given the forecasted inflation, the National Bank lowered interest rates on its instruments at the beginning of the year.

On February 19, 2020, the refinancing rate was reduced from 9 to 8.75 percent per annum, the rate on standing facilities designed to support liquidity - from 10 to 9.75 percent per annum, and the rate on standing facilities designed to withdraw liquidity - from 8 to 7.75 percent per annum.

Monetary conditions



Source: the National Bank's calculations

The average rate of the overnight interbank market in March 2020 was near the refinancing rate.

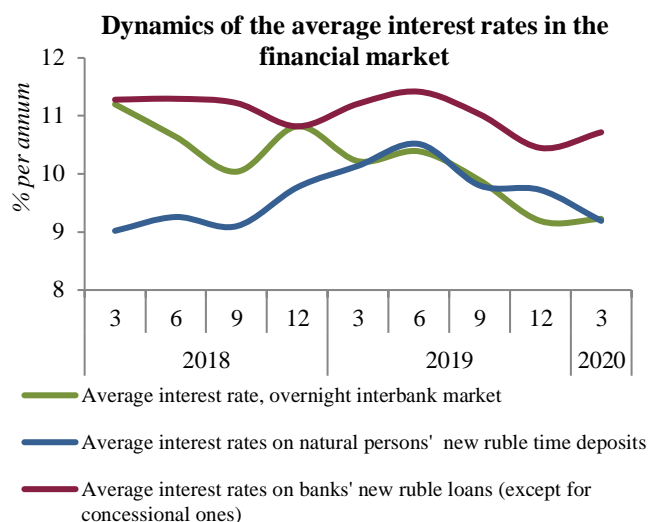
As a result, the average interest rate on natural persons' new term bank deposits in national currency in March 2020 stood at 9.19 percent per annum (9.72 percent per annum in December 2019).

In 2020 Q1, on the background of lower average interest rates of the deposit market, the growth of households' term ruble deposits slowed down. At that, in March, with higher devaluation and inflation expectations being in place, there was an outflow of deposits in the economy. In general, the annual growth of average households' term ruble deposits in March 2020 amounted to 24.4 percent compared to 27.5 percent in December 2019.

In March 2020, considering the growth of economic agents' devaluation expectations and the outflow of households' deposits, the National Bank took measures to maintain the deposit market stability. In order to increase the flexibility of banks' response to changes in the market trends under the new conditions, decisions were made to temporarily suspend approving and applying the estimated values of standard risk for deposit instruments, as well as to increase them for credit instruments.

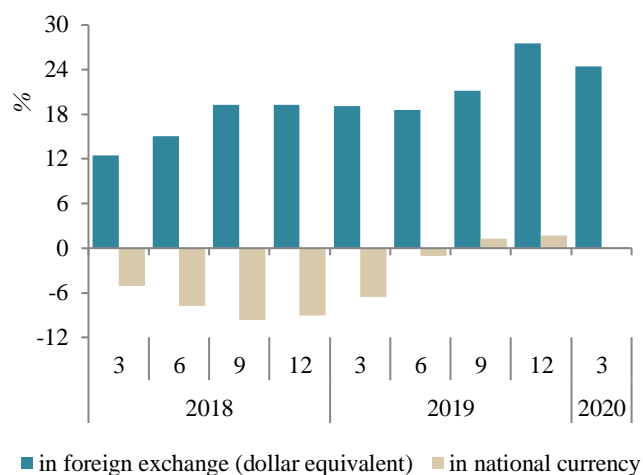
As a result, the average interest rate on new banks' credits in national currency (excluding credits granted on concessional terms) in March 2020 totaled 10.72 percent per annum, increasing by 0.27 percentage points for the quarter.

At the same time, credit support for the economy was provided. The average claims of banks and the Development Bank on the economy in March 2020 grew in annual terms by 20 percent (by 9.2 percent in December 2019). Lending to the economy in Belarusian rubles continued to outstrip lending in foreign



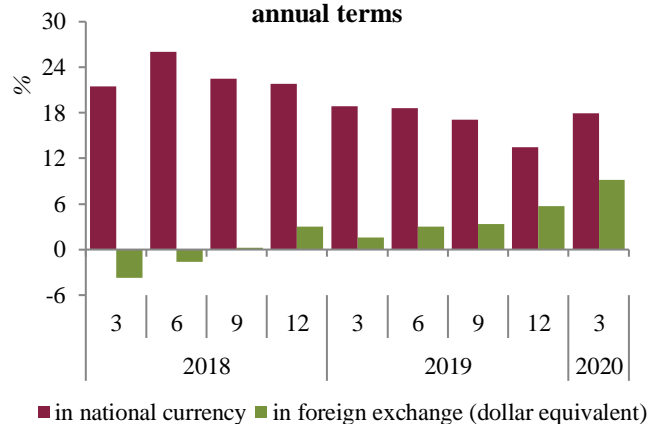
Source: the National Bank

Growth in average annual deposits of individuals in annual terms



Source: the National Bank's calculations

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



Source: the National Bank

currency: the annual growth in March 2020 was 17.9 and 9.2 percent, respectively.

In March 2020, the share of the ruble component in the broad money supply structure amounted to 40.8 percent (43.8 percent in December 2019). In annual terms, the growth of the average broad money supply in March 2020 accounted for 14.8 percent. The main factor in accelerating its growth rate and reducing the ruble component, was the weakening of the Belarusian ruble.

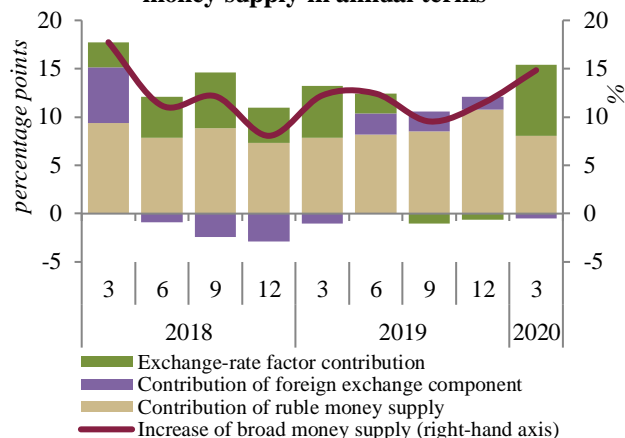
A high demand for credit resources, as well as the outflow of the households' term ruble deposits were the main factors supporting the consumption and imposing pressure on the foreign exchange market.

In 2020 Q1, changes in the terms of oil supplies to the country, the Russian ruble depreciation amid a sharp decline in the cost of oil on world markets, as well as the increased demand for imported goods, caused a steady growth in foreign currency demand in the domestic foreign exchange market. In the reporting quarter, economic entities and households acted as net buyers of foreign currency.

The increased net demand in the domestic foreign exchange market contributed to the nominal weakening of the national currency and a reduction of the Belarusian ruble overvaluation as a whole.

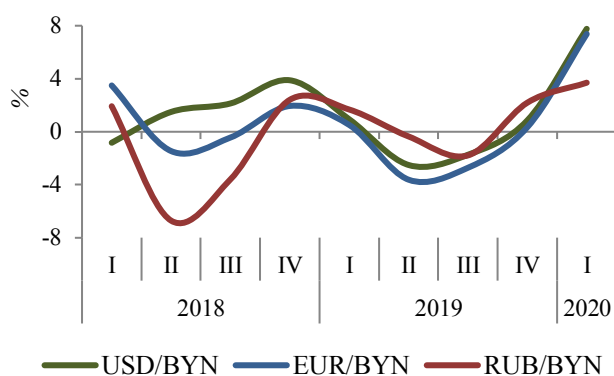
In 2020 Q1, the nominal depreciation of the Belarusian ruble amounted to 7.8 percent against the US dollar, 7.4 percent - the euro, and 3.7 percent - the Russian ruble.

Breakdown of the increase in the average broad money supply in annual terms



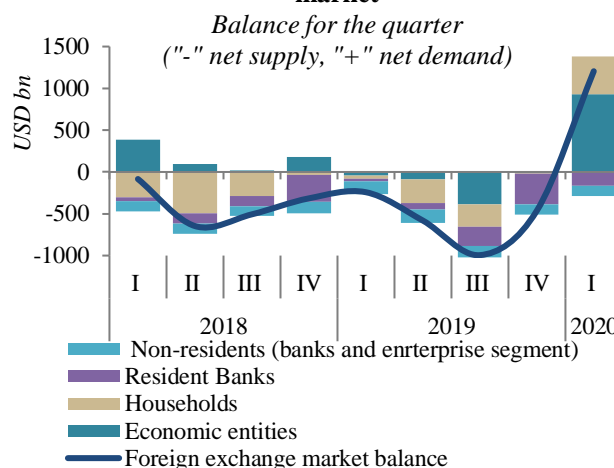
Source: the National Bank's calculations

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



Source: the National Bank

The situation in the domestic foreign exchange market



Source: the National Bank