

# **Outlook for Inflation Improves, Reserves and Income Grow – Belarus Economy Digest**

Price increases for regulated goods and services, as well as the abolition of price regulations on meat had a stimulating effect on inflation in Belarus.

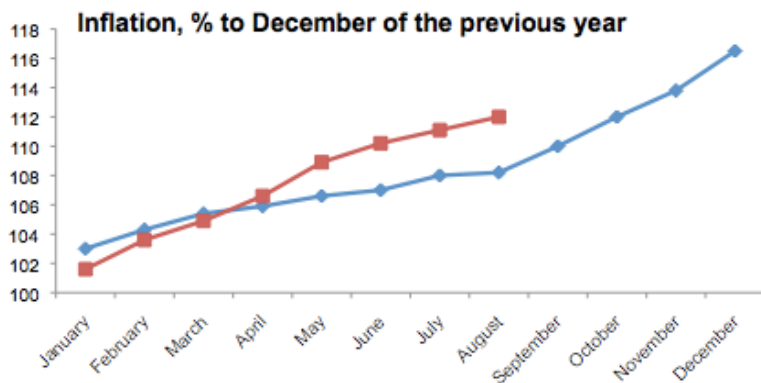
In the first half of 2014 a gradual reduction of Belarus' foreign currency reserves occurred as a result of significant foreign debt service payments. But over the summer this year external and internal borrowing and foreign currency purchasing by the National Bank had a positive influence on the volume of foreign currency reserves.

Although the growth of real wages in the first half of 2014 slowed down, it remains in the green. Increases in real income helped to reduce the number of households with incomes below the national poverty line.

## **Exceeding Planned Growth**

In accordance with the updated official forecast, price growth on consumer goods and services at the end of this year will hit 117.3 per cent. Originally, the inflation of consumer goods was anticipated to be 111 per cent, but this mark has already been surpassed over January-July 2014.

Mainly food products and services saw the most rapid price hikes. For example, prices for meat and poultry over an 8 month stretch rose by more than 32 per cent, while kindergarten schooling saw a 93 per cent increase.



Source: National Statistical Committee of the Republic of Belarus

On the one hand, as long as inflation continues to rise, the prices for regulated goods and services will also climb.

On the other hand, this has had a stimulatory effect on prices following an official decision to abolish price ceilings in this instance as it allows for meat to be sold on the open market without restrictions.

Due to higher costs, especially in regulated prices, the inflation rate for the poorest segments of the population grew at a faster pace than that for its wealthiest citizens. In the second half of this year the main drivers of prices continues to be forecasts of further devaluation, including the Belarusian ruble's rate of devaluation, as well as an increase in prices for goods whose prices are regulated by the state.

Taking into account these current trends, the expected inflation rate for 2014 will exceed the level seen in 2013. For example, consumer prices increased by 16.5 per cent by the end of 2013. According to a preliminary forecast for the end of 2015, analysts expect the growth in prices to slowdown, levelling out at 12.5 per cent.

### **Foreign currency reserve showing good signs**

On 1 September, 2014 the foreign exchange reserves of Belarus were \$ 6.3m. This volume covers about 1.9 months worth of imports (with a minimum appropriate level being 3 months). The

negative impact on the nation's foreign currency reserves over the period assessed was mainly due to Belarus servicing its foreign debt.

In 2014 alone the state's payments on foreign obligations will exceed \$3bn. At the same time, despite an increase in payments on its external public debt, Belarus has managed to increase the volume of its foreign exchange reserves in recent months. It achieved this through external and internal borrowing and purchasing foreign currency on its domestic market.

A \$2bn loan from VTB Bank bolstered current reserves. Loans from International Bank for Reconstruction and Development, the Chinese government, and export credits from the Russian Federation for the construction of a nuclear power station, and other factors, also contributed to Belarus' maintenance of its reserves.

Additionally, the excess foreign currency supply, which sat above domestic market demand for both the population and economic entities, had a stimulating effect on the size of the available foreign exchange reserves in July and August.

The Ministry of Finance periodically sells government bonds denominated in a foreign currency to businesses and individuals. This tool allows it to attract foreign currency to transfer into its own foreign exchange reserves without increasing its foreign debt. This also leads, however, to an increase in domestic public debt.

In August, foreign exchange reserves increased by \$78m, which is largely due in part to purchases of currency on the domestic market by the National Bank, but is also due to the placement of foreign currency bonds. According to official forecasts, foreign exchange reserves for Belarus will increase by \$0.2-0.5bn by year end.

## **Reducing poverty**

Belarus saw its wages continue to climb in both nominal and real terms in January-July 2014. The average salary in July amounted to BYR 6.5m (US\$629). At the same time we can see a gap in the average wages when looking at regional dynamics. While the Vitebsk region's average nominal salary was BYR 5.7 m (US\$557), in Minsk this figure was BYR 8.3m (US\$809).

The differences noted above are natural enough, as traditionally metropolitan areas costs of living are much higher than in small towns and rural areas. As was previously true, the highest salaries in Belarus remains in economic zones that contain airports or companies from the petrochemical, financial or IT sector.

According to a sample survey of households in the first half of 2014, the number of low-income families in Belarus has decreased. In the period studied, the share of households with disposable incomes below the subsistence minimum was 3.5 per cent over all, while in the first half of 2013 it was 4.2 per cent. This gradual income growth helped to support higher growth levels for retail turnover.

In accordance with the official forecast, income growth in real terms will grow 3 per cent throughout 2014. In order to increase the efficiency of the economy, the increased labour productivity needs to be similar to that of the growth in real wages.

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