Belarus Economy Monitor:
trends, attitudes and expectations

Express Analysis
Economic Activity

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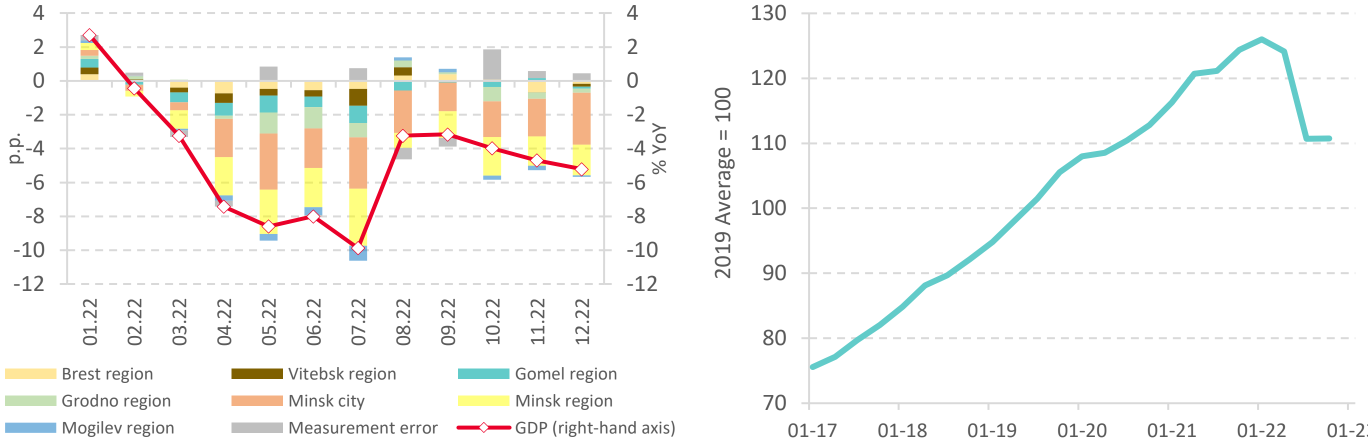
https://beroc.org
beroc@beroc.by

Belarusian GDP ended 2022 near the levels recorded in 2011-2012

By the end of 2022, the GDP of Belarus decreased by 4.75% y/y. The indicator's decline is estimated at around 5% y/y in December only (Figure 1.a). The GDP's volume in December (seasonally adjusted) was somewhat lower compared to the autumn months. This indicates that the Belarusian economy was still in the process of adapting to new conditions despite the loose monetary policy, public sector credit support, gradual adjustment of trade and logistics chains, and a relatively favorable external environment. The rate of GDP contraction is likely to remain close to 4-5% y/y at the beginning of this year, but may slow down in March-April: the strong decline in March-April 2022 will no longer affect the annual GDP change rate.

Figure 1. Regional structure of the GDP growth in Belarus and the value added of the IT Sector[1]

a) regional GDP growth structure; b) value added in ICT (seasonally adjusted).



Note: The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

[1] Belstat has revised its GDP data for 2021-2022; however, the updated values by sector are still available on a quarterly basis only. In this regard, we cannot accurately assess the monthly dynamics of value added by sector.

The ICT sector lost two years of its development in 2022

The fall in the ICT sector remained double-digit in December and, in general, amounted to 11% y/y in Q4 2022. Thus, the value added of the IT sector fell to the level of the second half of 2020 due to the outbound relocation of businesses and professionals (Figure 1.b).

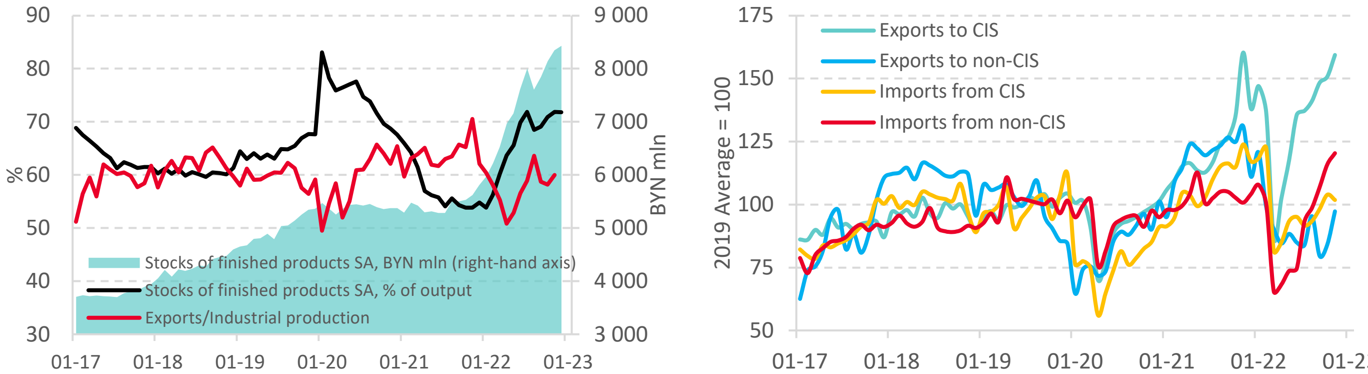
Manufacturing output decreased at the end of last year

The seasonally adjusted nominal output of manufacturing industries decreased by ≈0.2-1.5% in December versus November. Given the increase in producer prices, this indicates a decrease in output in real terms. Judging by the available information, manufacturing enterprises have slowed down their production in the Gomel and Vitebsk regions, as well as in Minsk. It cannot be ruled out that this may be a consequence of production limitations in oil refining, metallurgy and mechanical engineering, where there could have been an active recovery and even an output increase in previous months. The dynamics of production in the manufacturing industries of the Minsk region indicates the likely persistence of challenged potash fertilizer supplies. Production growth in December was seen in the food industry, possibly due to supplies to Russia.

In general, the supply of Belarusian goods to the CIS countries has been actively recovering in the context of redirecting exports of sanctioned industries primarily to Russia. It should be noted that this process has been accompanied by a strong rise in imports from the non-CIS countries since autumn (Figure 2). Part of the imports increase from the non-CIS countries may be due to the substitution of Ukrainian supplies. However, it cannot be ruled out that re-exports to Russia take place to some extent due to differences in sanction regimes.

Figure 2. Dynamics of stockpiles and foreign trade in goods

a) stockpiles; b) value of foreign trade in goods (seasonally adjusted).



Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

Wholesale trade and transport freight turnover remained in deep red in December

The fall in cargo turnover by 26.5% y/y and of wholesale trade by 21.1% y/y indicate that the process of rebuilding supply chains is far from being complete. This indirectly indicates that, despite increasing supplies of goods to Russia, in general, the physical volume of exports has remained 20–25% below the 2021 level.

Domestic demand continued to recover in the consumer segment

Retail trade turnover has shown moderate corrective growth in recent months, which has not yet fully compensated for the fall in April-May 2022 (Figure 3.a). The recovery dynamics of consumer demand was facilitated by the wage increase that had begun, the revival of lending as a result of a serious easing of monetary policy, and regulatory price cuts. The dynamics of consumer demand does not yet create an additional inflationary pressure, since its level has not compensated for the spring fall. However, the disinflationary impact of this factor has been decreasing, and if the government intensifies the practice of stimulating growth of wages and consumption, inflationary risks will increase due to existing production limitations.

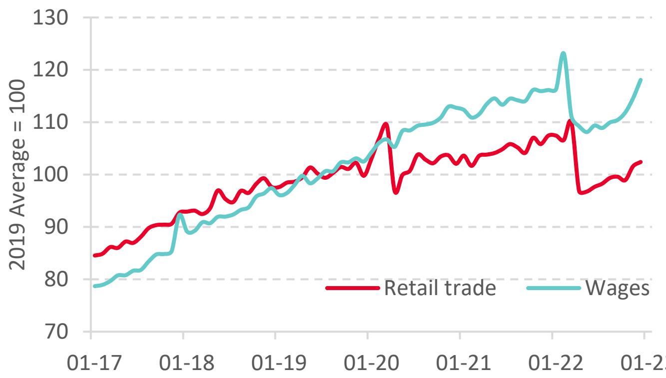
Investment demand remained subdued in December

Investments in fixed capital, including into machinery and equipment, have not yet shown signs of recovery after the fall in the spring of 2022 (Figure 3.b). Capital investments are "at the bottom" even despite a significant decrease in interest rates on loans and deposits, an increase in net profits of organizations in January-November by 2.7% y/y (although it has begun to decline again in recent months) and active state support through quasi-fiscal operations. It is likely that the growth of investments is constrained by increased uncertainty, a worsening business climate, and difficulties with supplying technological equipment to Belarus and delivering related services.

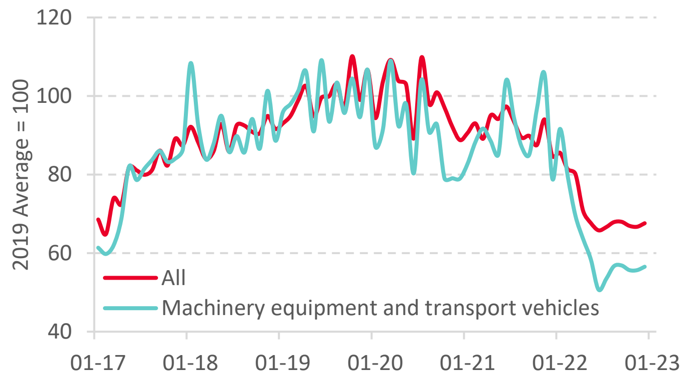
It is possible that loose monetary policy and quasi-fiscal stimulus will gradually start showing up in investment demand this year, but the authorities' plans to grow real investment in fixed assets by 22.3% y/y look overly optimistic. At that, even if these plans come true, this will not fully compensate for the failure of 2022 and, even more so, the reduction accumulated in 2020–2022.

Figure 3. Retail trade and investment dynamics

a) retail trade and wages (seasonally adjusted, in real terms);



b) investments (seasonally adjusted, in real terms).



Note: The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators of real investment have been calculated by deflating the nominal investment by the Investment Goods Producer Price Index. Seasonal adjustment (individually for nominal indicators and price indices) was made through the X13 and TRAMO/SEATS procedures in the JDemetra+ application. The indicator dynamics updates once new data are published.