Belarus Economy Monitor:
trends, attitudes, and expectations

Express Analysis
Economic activity and inflation

June 2024

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Belarusian economy grew in May, and if there are no logistics disruptions or sharp tightening of domestic economic policy, GDP growth could be over 4% in 2024

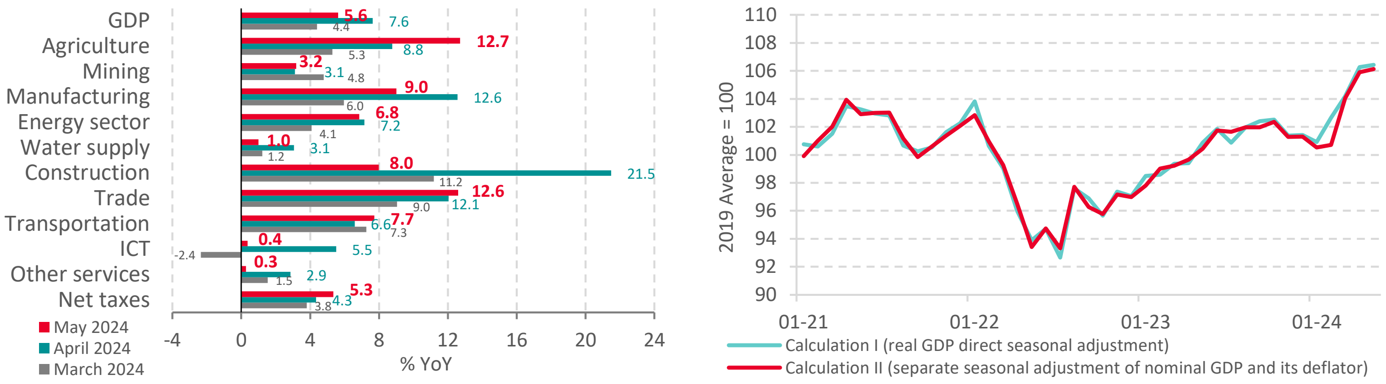
GDP grew by 5.2% YoY in January-May 2024, and by ≈5.6% YoY in May only (Figure 1.a). Seasonally adjusted output grew by ≈0.1–0.3% in May versus April following its ≈2% growth the month before (Figure 1.b). The output was supported by high domestic consumer activity, increased investment in machinery and equipment, strong external demand from Russia, and a shift in the sowing campaign.

A downward output adjustment cannot be ruled out in June following a rapid output growth in spring, but overall, GDP will grow by about 5% YoY in the first half of 2024. This high figure may be partly explained by the greater potential of the economy during the period of its structural transformation than projected in 2022–2023. However, even with greater growth in the economy's potential, the cumulative expansion rate of output is associated with increased economy overheating, and it is several times higher than balanced GDP growth rates previously projected by the National Bank. If the National Bank intends to be consistent, it should tighten monetary policy.

Figure 1. Dynamics of GDP and value added in Belarusian sectors

a) GDP growth, a month to the corresponding month of the previous year (%, YoY)

b) GDP volume in constant prices (seasonally adjusted)



Note: The indicator dynamics updates once new data are published. Monthly GDP data are estimates, and they should be treated with caution. Quarterly data are more representative and reliable.

This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

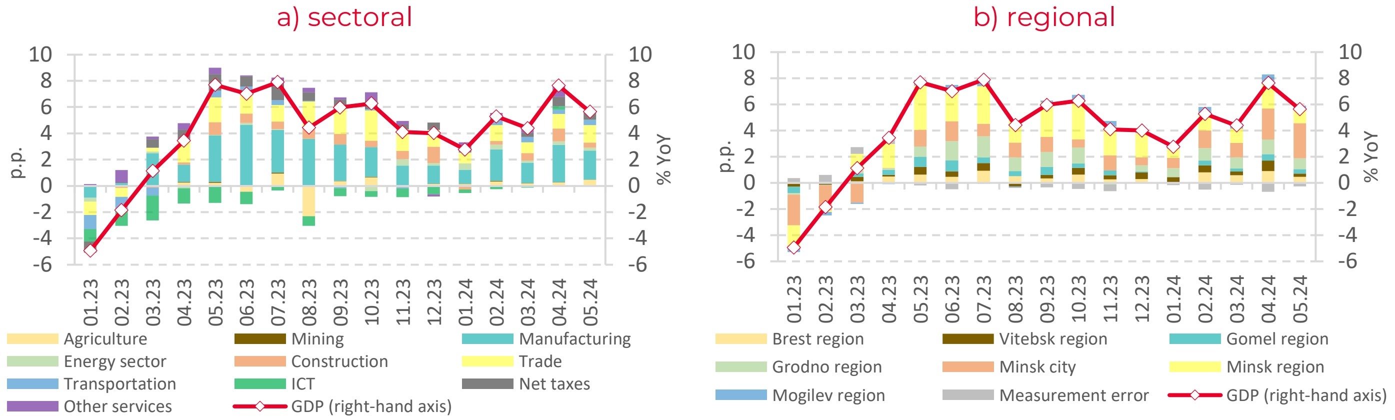
In May, industrial value added grew by ≈8.4% YoY and contributed ≈2.4 p.p. to annual GDP growth (Figure 2.a)

Industrial output (in real terms, seasonally adjusted) grew by ≈2% in May versus April (Figure 3.a) thanks to both manufacturing industries and the energy sector. Growth in the manufacturing industry is ensured by production in the Gomel region and the city of Minsk. This indicates a likely recovery in petroleum product production after the April downturn, and strong dynamics in metallurgy, instrument making and other engineering associated with the military-industrial complex and, possibly, import substitution. Industrial output continues to be stimulated by high domestic and external demand mainly in Russia. In such environment, warehouse stocks continued to decline in May (Figure 3.b).

Agricultural value added grew by ≈12.7% YoY in May and contributed ≈0.5 p.p. to annual GDP growth (Figure 2.a) **in an environment of strong domestic consumer activity and external demand, as well as favorable climatic conditions**

In summer, agricultural output will be responsible for high GDP volatility due to uneven sowing and harvesting campaigns in 2023 and 2024.

Figure 2. Structure of GDP growth in Belarus (given month compared to the corresponding month of the previous year: %, YoY)



Note: The estimates update once the data are verified. The energy sector includes the water supply.

The volume of transport sector services expanded by ≈7.7% YoY in May (Figure 1.a)**, thus contributing about 0.4 p.p. to annual GDP growth** (Figure 2.a)

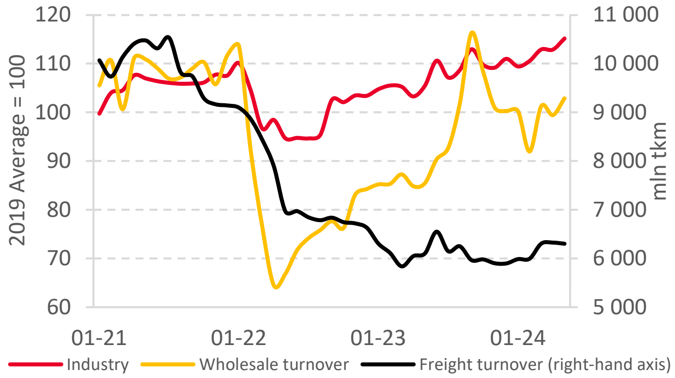
Monthly dynamics (seasonally adjusted) showed a slight growth in the transport sector associated with an increase in passenger turnover in an environment of high consumer demand. Freight turnover in April-May remained close to March levels (more than 36% below the 2021 average) following some recovery at the beginning of the year (Figure 3.a).

Value added of the ICT sector grew by ≈0.4% YoY in May following a notable growth in April (Figure 1.a)

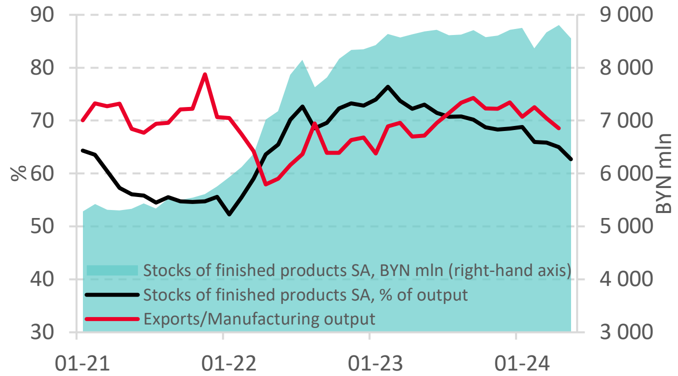
The monthly output dynamics (seasonally adjusted) of the ICT sector also showed weak growth in May. The ICT sector has most likely ended its two-year recession and has moved on to recovery, the pace of which is still anemic. Weak recovery observed in the ICT and freight transport sectors in the first half of 2024 reflected in the stabilization of the surplus in foreign trade in services around 4% of monthly GDP (seasonally adjusted), which was significantly lower than the average level of 5.7% of GDP in 2017–2019 and 6.5% of GDP in 2020–2021 (Figure 5.b).

Figure 3. Dynamics of industrial output, wholesale trade and transport freight turnover

a) real industrial output (SA), wholesale trade (SA) and freight turnover (SA)



b) industrial stockpiles, and the ratio of goods exports to output



Note: SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal wholesale trade volume by the wholesale trade price index. The real industrial output volume has been calculated based on the Belstat's Industrial Output Index in 2015 prices. The dynamics updates once new data are published.

Consumer demand intensified in May, and value added in the trade sector grew by ≈12.6% YoY and contributed ≈1.3 p.p. to annual GDP growth

Retail trade grew by ≈3% in May versus April (seasonally adjusted) following its adjustment decline a month earlier (Figure 4.a). As a result, consumption of goods was more than 15% higher than the 2021 average, and consumption of non-foods was more than 21% higher than the 2021 average. Household demand for services also remained high, as evidenced by the continued growth in catering, passenger turnover and other services (except for the transport, ICT and trade sectors) in the GDP structure in May. Extremely high wage growth amid a shortage of workers and expansion of social budget spending, as well as the availability of credit and its rapid increase continue to heat up the already overheated consumer activity. Cooling demand requires tightening monetary policy and limiting concessional lending.

If the National Bank relied on the consistent policy principle, then the current situation (no active actions of the National Bank when the growth of the economy is about 5% YoY with the balanced growth estimated by the National Bank at about 1% YoY in January 2024, and the conclusion of the National Bank that overheating of the economy was close to 2% of potential GDP already in Q1-2024)[1] requires this monetary regulator to provide at least additional explanations.

The construction sector adjusted downward in May following its strong growth in April, while investment in machinery and equipment continued to grow rapidly (Figure 4.b)

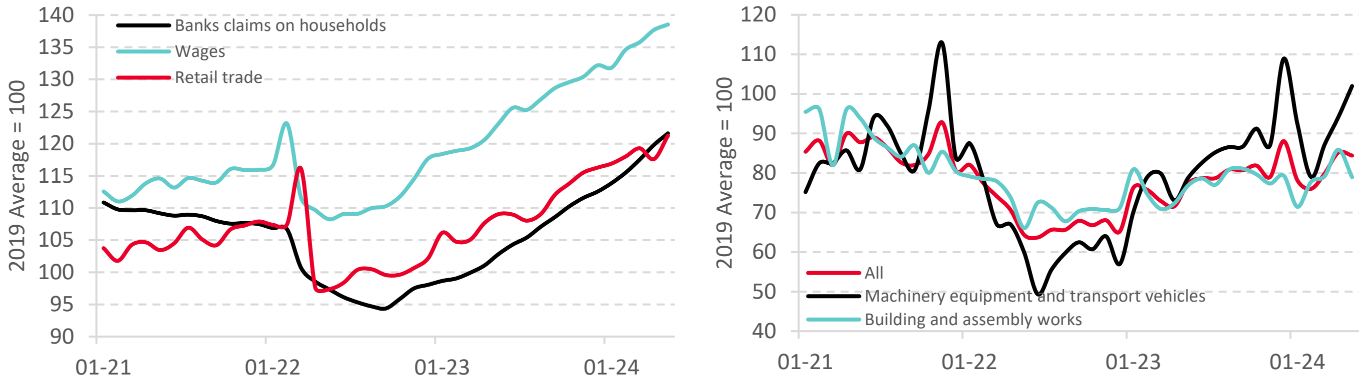
It is still premature to judge whether the growth of investments in the active part of fixed assets is sustainable. However, investing in capacity expansion and productivity growth is likely the only option to maintain high output volumes in an environment of labor shortages, full capacity utilization, and growing competition in the Belarusian and Russian markets. If investment in machinery and equipment continues to grow (despite its possible volatility), this will signal increased expectations of firms regarding the sustainability of demand for their products, and this will be associated with a potential GDP growth.

[1] See: https://www.nbrb.by/press/2024/01/doklad_itogi_2024.pdf and https://www.nbrb.by/publications/inflationquarterly/inflationquarterly_2024_1.pdf.

At the same time, if this scenario materializes, this will be a kind of mobilization growth in the context of restructuring economies of Belarus and Russia. As this restructuring is completed and the vacated niches are filled after Western companies exit, the growth of the Belarusian economy will slow down to 1–2% per year in the best-case scenario.

Figure 4. Retail trade and investment dynamics

a) retail trade, wages and lending (seasonally adjusted, in real terms) b) investment (seasonally adjusted, in real terms)

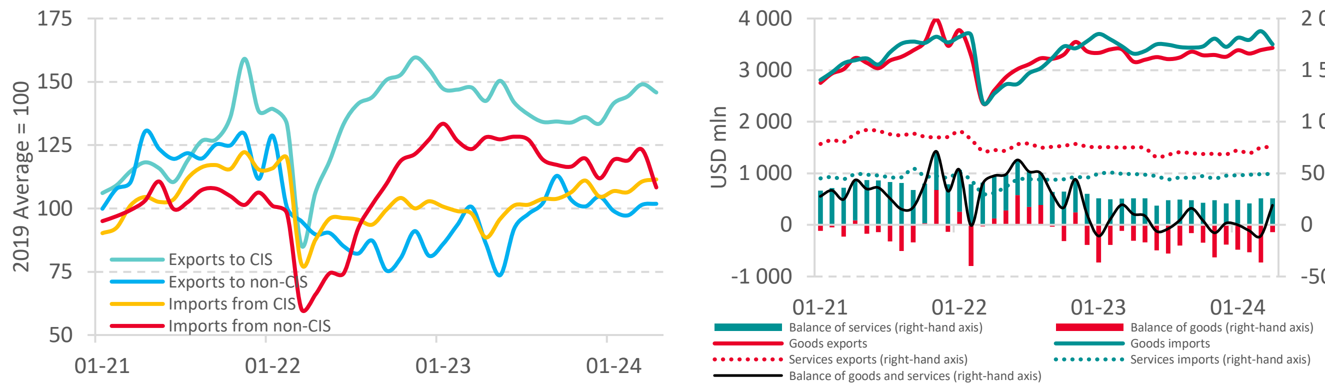


Note: The real volume of retail trade has been calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction price indices. The indicator dynamics updates once new data are published.

Currently, there is no need to ensure soft lending conditions to support the investment activity of Belarusian businesses. Real average interest rates on Belarusian ruble market loans to organizations have fluctuated around 4–5% per annum in recent months, which is close to, but slightly below the neutral level. At the same time, non-price borrowing conditions get softer in terms of loan times, sizes, collateral and financial position requirements amid structural liquidity surplus in the banking system. As a result, current lending conditions allow firms to satisfy their high demand for credit to the maximum extent in an environment of strong demand for their goods and services. This does not really facilitate investment activity, but maintains excess demand and overheating of the economy. The investment process (in addition to changing institutions) will be facilitated by easing pressure on businesses and eliminating blanket price controls, which affects the financial standing of firms.

Figure 5. Dynamics of foreign trade indicators

a) value volumes of goods exports and imports (seasonally adjusted) b) value volumes of foreign trade (seasonally adjusted)



Note: The indicator dynamics updates once new data are published.

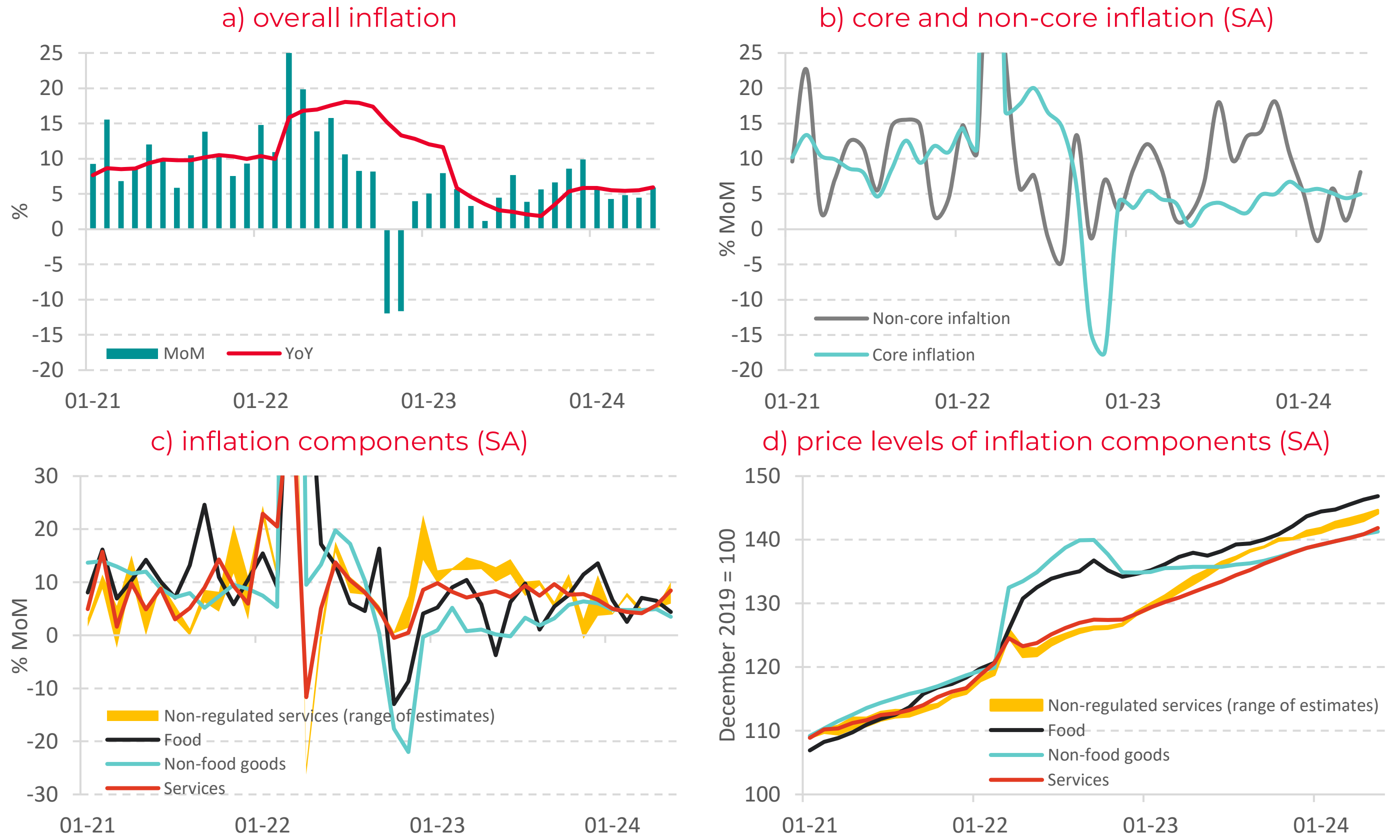
Inflation rose slightly in May, but generally remained restrained: the annual inflation rate was 5.72% YoY following 5.63% YoY in April, and the annualized monthly price growth (seasonally adjusted) was estimated about 6% (MoM) (Figure 6.a)

Price growth acceleration in May was mainly associated with increased non-core inflation (Figure 6.b). This was caused by both weakening of the downward dynamics in the prices of fruits and vegetables (seasonally adjusted) and an increase in regulated prices and tariffs to almost 9% MoM (seasonally adjusted). In the latter case, the key impact was the rise in prices of fuel, tobacco products, and domestic railway transportations.

Core inflation remained low in May: about 5% MoM (seasonally adjusted) (Figure 6.b). In an environment of blanket price control, extremely restrained price dynamics remained in the goods segment, especially in the non-food sub-segment (Figure 6.c). Inflation in unregulated services has accelerated, but largely due to volatile prices of air travel and tourism. However, the increase in prices for unregulated services consistently exceeds the rate of increase in prices for non-food products. This indicates continued price pressure from increased costs amid increased consumer demand, labor shortages, and expanding inflation overhang (Figure 6.d).

Monthly inflation will remain low in June due to price controls, and annual price growth is projected near the May level: about 6% (YoY)

Figure 6. Inflation dynamics in Belarus



Note: YoY (year-on-year) is a monthly growth rate versus the corresponding month of the previous year; MoM (month-on-month) is an annualized monthly growth rate (seasonally adjusted) versus the previous month. SA is a seasonally adjusted indicator. Seasonally adjusted prices and inflation for unregulated services are presented in the form of ranges since they can be assessed using different approaches.