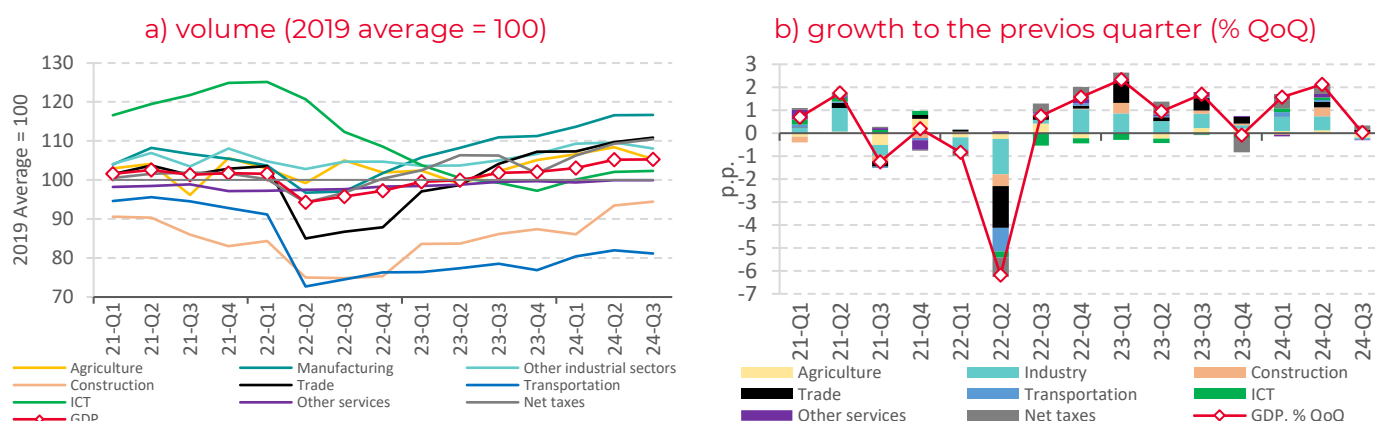


Economic Activity in Belarus Remained High in Q3-2024, but Growth Slowed Considerably

For the first nine months of 2024, GDP grew by 4.5% YoY, and in September, it increased by $\approx 1.6\%$ YoY (Fig. 2.a). GDP volume (seasonally adjusted) in September added $\approx 1\%$ compared to August, recovering slightly from the nearly 4% decline in the previous month (Fig. 2.b). Output dynamics between July and September were volatile due to the uneven timing of grain harvesting. Overall, GDP in Q3-2024 showed near-zero growth to Q2-2024 (Fig. 1.b), but thanks to growth in the first half of the year, it rose by 3.6% compared to Q3-2023 (5.5% YoY in Q2 2024 compared to Q2 2023). By the end of 2024, GDP is expected to grow by $\approx 4-4.5\%$ YoY.

In September and throughout Q3-2024, the economy was supported by domestic demand, particularly consumer demand. This demand continued to be fueled by increased budget spending and wages, high levels of credit activity, and household optimism. On the supply side, adjustments continued in response to the high demand. However, the pace of this adjustment remained moderate: investments grew at a modest pace, and their share relative to GDP had not yet returned to pre-war levels. At the same time, resource constraints (labor shortages, complications with supplies and transactions) increasingly limited the potential for production growth. As a result, the economy remained overheated (the output gap is preliminarily estimated at 3–3.5% in Q3-2024), but the extent of excess demand slightly diminished.

Figure 1. Quarterly dynamics of Belarus' GDP (at constant prices; seasonally adjusted)



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

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

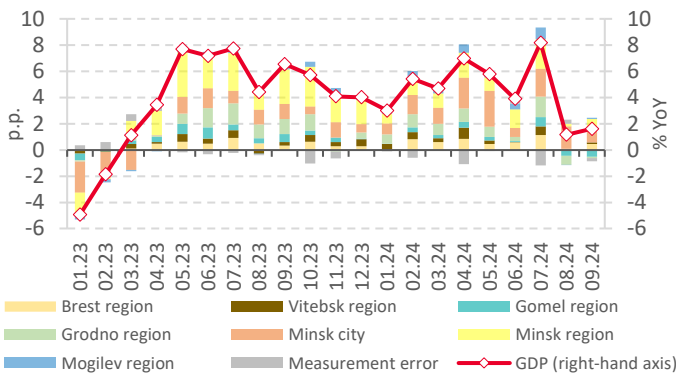
Neither BEROC nor its representatives shall be liable for using the information contained in this bulletin. While every care has been taken in preparing this material, neither BEROC nor any of its representatives make any warranty or assume any responsibility or liability as to the accuracy, completeness or credibility of the information contained herein. BEROC will not be liable for any losses and/or damages of any kind arising from using the information provided in the bulletin.

Trade supported GDP in Q3-2024 amid growing domestic consumer demand

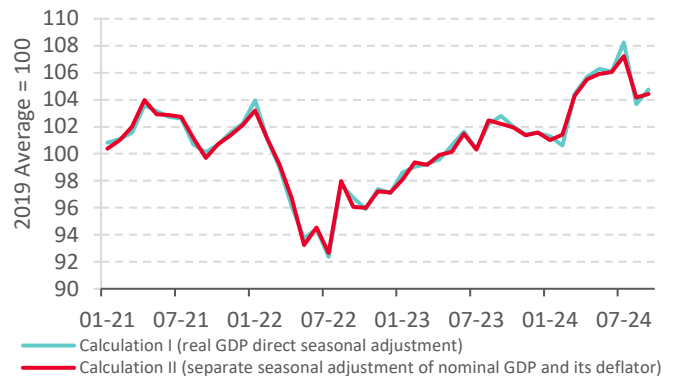
Trade value added increased by ≈1% in Q3-2024 compared to Q2-2024 (seasonally adjusted), following a 2.2% rise in the previous quarter. The slowdown is attributed to a decline in wholesale trade growth (Fig. 5.a), which may reflect weaker dynamics in goods exports (Fig. 6.b). Retail trade turnover continued to expand at a fairly high pace in both September and Q3-2024 as a whole. Consumer demand strengthened further, driven by continued rapid growth in wages and consumer credit (Fig. 3.a). Preliminary estimates suggest that household consumer spending on goods and services in Q3-2024 could be almost 19% higher than the average level of 2021. This significant growth, combined with a more than 25% increase in real wages over the same period, points to a serious overheating of consumer demand, which poses risks to macroeconomic stability.

Figure 2. Monthly GDP dynamics

a) month compared to the corresponding month of the previous year (% YoY)



b) GDP volume at 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.

Value added in construction increased by ≈1% in Q3-2024 compared to Q2-2024, following over 8% growth in the previous quarter (seasonally adjusted)

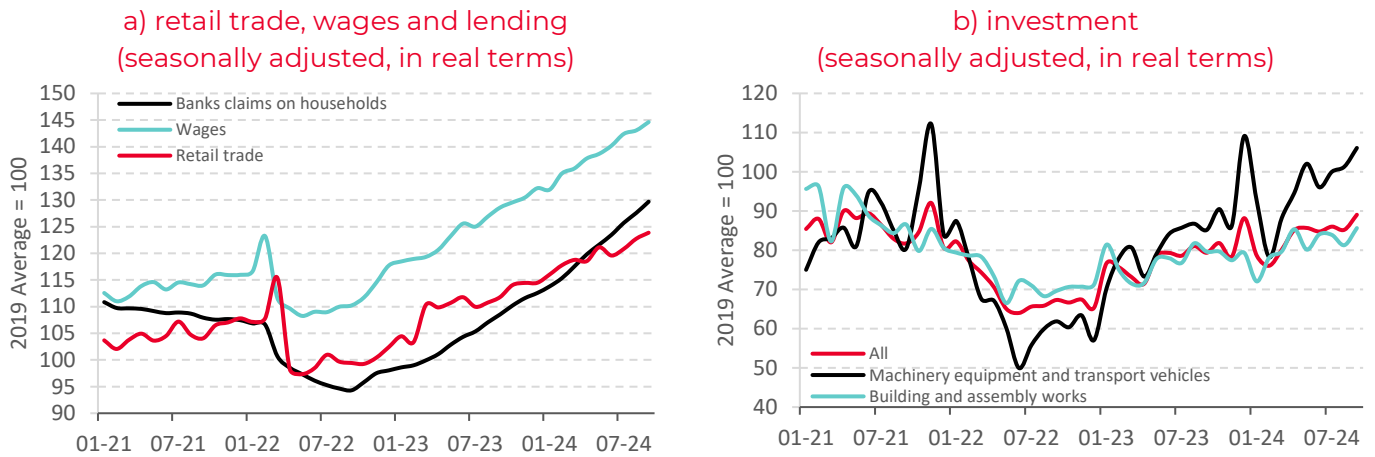
The volume of construction works and investments in machinery, equipment, and transportation saw a noticeable increase in September 2024, driving overall growth for Q3-2024 (Fig. 3.b). Belarusian producers continued to adjust to the heightened demand, though the pace of this adjustment remained moderate. Gross fixed capital formation (preliminary estimates) reached around 23.5% of GDP in Q3-2024 (seasonally adjusted), which is below the levels seen in 2017–2020 (averaging around 26.4% of GDP) and pre-war 2021 (approximately 23.8% of GDP).

The scale of investment activity, combined with a shrinking labor force and weakening institutions, does not allow for expectations of higher potential GDP growth rates in the medium term, compared to the past decade (around 1% per year). This is particularly true as the structural transformation of the Russian and Belarusian economies comes to completion.

The value added growth in the information and communications sector is estimated at around 0.2% in Q3-2024 compared to Q2-2024 (seasonally adjusted)

The recovery of the ICT sector is progressing slowly, with output still lagging more than 15% behind the average levels of 2021, remaining comparable to mid-2019 levels (Fig. 1.a).

Figure 3. Retail trade and investment dynamics

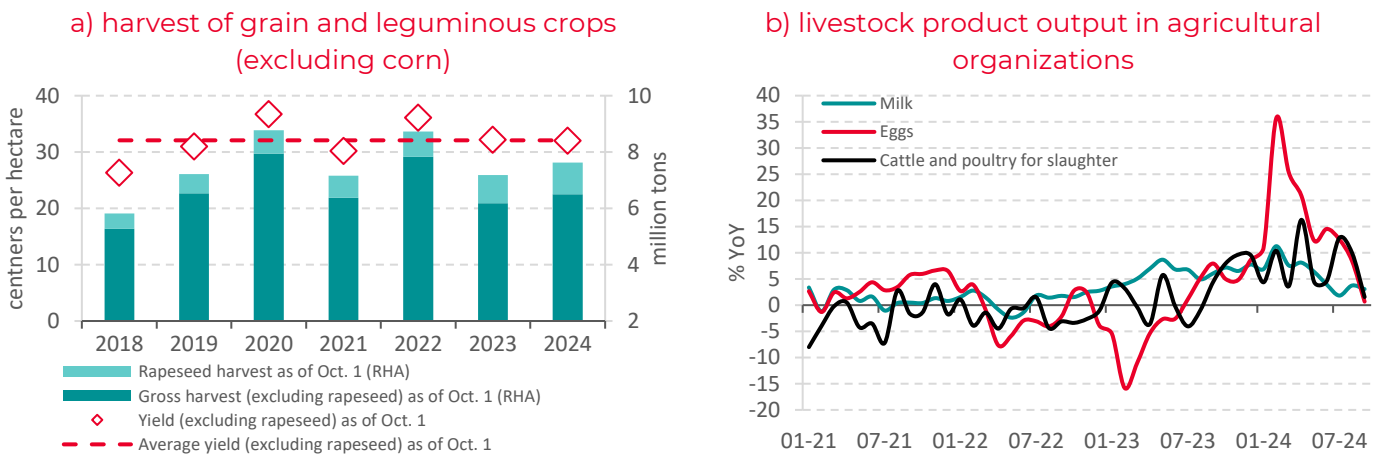


Note: Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction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

Agricultural value added (seasonally adjusted) decreased by ≈2.8% in Q3-2024 compared to Q2-2024 (Fig. 1.a)

Agricultural performance in Q2–Q3-2024 was volatile due to the uneven timing of the harvest season, with a larger-than-usual portion occurring in June. As of October 1, 2024, the total grain harvest was only 5.3% higher than the low level of the previous year, while crop yields were even 0.6% lower (Fig. 4.a). Potato yields were 14.8% lower than last year's levels, while yields for vegetables and fruits were 0.9% higher (as of October 1, 2024). Additionally, livestock production weakened significantly in Q3-2024 (Fig. 4.b), likely due to saturation in the Russian market.

Figure 4. Agricultural indicators



Industrial production decreased by ≈1.3–1.5% in September compared to August 2024 (in real terms, seasonally adjusted; Fig. 5.a), showing near-zero growth overall in Q3-2024 (Fig. 1.a)

In September, manufacturing output declined significantly. Based on production dynamics in the Vitebsk and Gomel regions, oil refining had not yet recovered from the adverse weather in July, and petroleum product production remained lower than in the first half of the year.

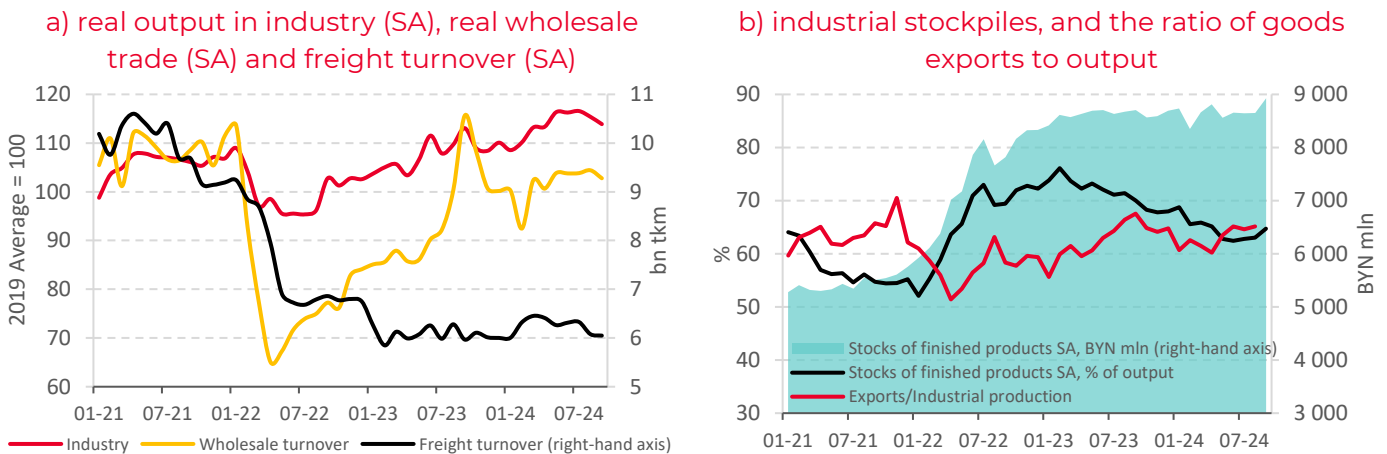
Moderate growth likely persisted in metallurgy and mechanical engineering. This is indicated by the reduction in manufacturing output in the Gomel region, as well as stagnation in Minsk and Mogilev region. The food industry slowed in September, as evidenced by lower output in the Brest region and a weakening trend in livestock production (Fig. 4.b). On the other hand, growth was observed in the Grodno and Minsk regions, likely reflecting the recovery of nitrogen fertilizer production after an August decline and strong production dynamics in potassium fertilizers.

Overall, in Q3-2024, manufacturing ceased to grow: the seasonally adjusted volume of its value added remained at the same level as in Q2-2024. Capacity utilization also did not increase, hovering around 70%. Constraints such as capacity shortages, labor deficits, and complications in logistics and supply financing limited enterprises' ability to maintain high production growth rates. Meanwhile, in the final months of Q3-2024, inventories began to increase again (Fig. 5.b), especially in Minsk, which may signal weakening demand in Russia or the increasing impact of intensified competition in the Russian market. Despite the lack of growth, industrial output remained elevated above the optimal level (about +8.6% compared to the 2021 average, and approximately +10% in manufacturing), as both domestic and external demand remained overheated.

Transportation turnover stagnated in September and Q3-2024 amid weaker industrial production dynamics (Fig. 5.a)

The transport sector remained an underperformer in Q3-2024 compared to other sectors of the economy. The value added in transport was approximately 14% below the pre-war 2021 average due to weak freight transport. Freight turnover in September remained about 39% lower than in 2021, following the loss of transit. In contrast, passenger transportation continued to grow in Q3-2024, supported by strong consumer activity and the development of domestic tourism.

Figure 5. Dynamics of industrial output, wholesale trade and transport freight turnover



Note: SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal 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.

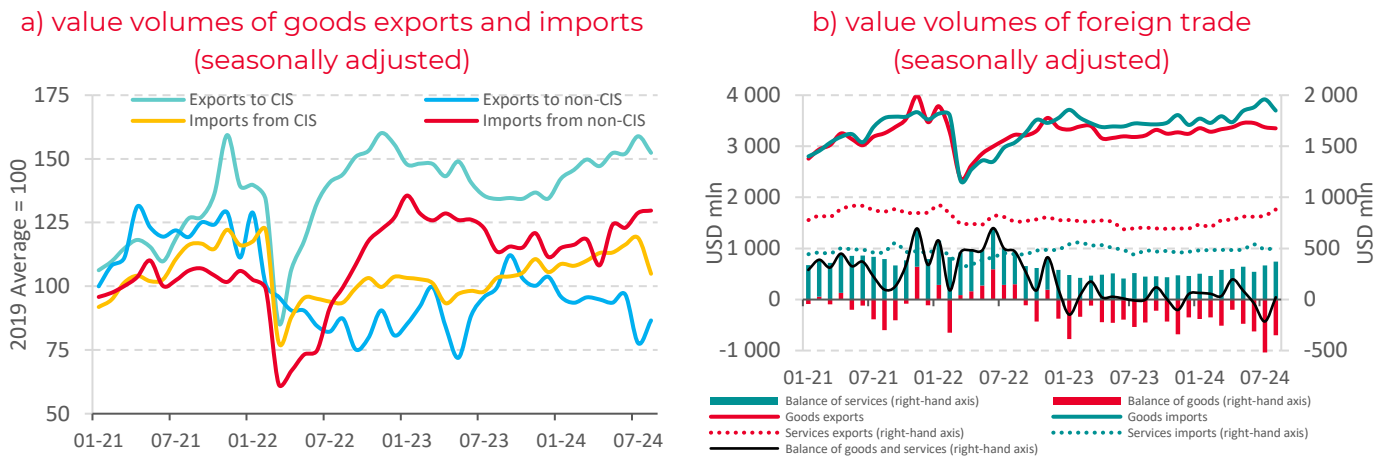
The foreign trade balance returned to balance in August 2024 after a sharp temporary decline in July due to disruptions in petroleum product exports (Fig. 6.b)

In August, there was both a reduction in the trade deficit for goods and an increase in the surplus in services trade. The goods trade deficit narrowed from approximately \$550 million in July to around \$350 million in August (seasonally adjusted; Fig. 6.b). This reduction is attributed to a partial recovery in exports to non-CIS countries (likely driven by increased shipments of potassium fertilizers) and a noticeable decline in imports from CIS countries (Fig. 6.a).

The latter could be related to a temporary decrease in oil imports from Russia in August, stemming from ongoing issues in oil refining. In July, oil purchases were near "normal" levels, despite a sharp drop in processing at the Mozyr oil refinery due to the aftermath of bad weather.

The services trade surplus expanded from around \$330 million in July to approximately \$370 million in August (seasonally adjusted; Fig. 6.b), reaching 5.7% relative to GDP. This increase in surplus is linked to the growth in service exports, which exceeded 13% of GDP in September (seasonally adjusted), reaching levels seen in the first half of 2022 (Fig. 6.b). This was driven by the recovery of the ICT sector after a two-year deep slump and a likely rise in prices for ICT services. As a result, the services trade surplus in August offset the goods trade deficit, bringing the overall balance of trade in goods and services close to balance (seasonally adjusted). Before the COVID-19 pandemic, a zero trade balance was considered "normal" for Belarus. However, since the loss of access to external financing after 2022, it is possible that the "normal" balance has shifted toward a surplus. Therefore, a trade balance near zero is likely a critical threshold for macroeconomic stability, particularly in terms of the external trade position.

Figure 6. Dynamics of foreign trade indicators



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

Inflation slowed in September compared to August: annual rate decreased from 6.1% YoY to 6.0% YoY, and the monthly annualized growth rate (seasonally adjusted) declined from ~6-7% MoM to ~4% MoM (Fig. 7.a)

The slowdown in inflation is attributed to a decrease in the growth of its non-core component, from nearly 13% MoM in August to ~0% MoM in September (Fig. 7.b). Within the non-core inflation, both a decline in fruit and vegetable prices and a significant weakening of the dynamics in regulated prices and tariffs were observed.

The seasonally adjusted annualized drop in fruit and vegetable prices exceeded 11% MoM, marking a correction after three months of rapid growth of nearly 50% MoM on average. Overall, in Q3-2024, the cost of fruits and vegetables increased by more than 20% QoQ, likely due to potential import issues (possibly including phytosanitary products) and the prioritization of exports over domestic supply. The growth rate of regulated prices and tariffs slowed from about 6% MoM in August to ~2.6% MoM in September. This conservative approach by the authorities in raising regulated prices may be linked to a strict target of keeping inflation below 6% YoY.

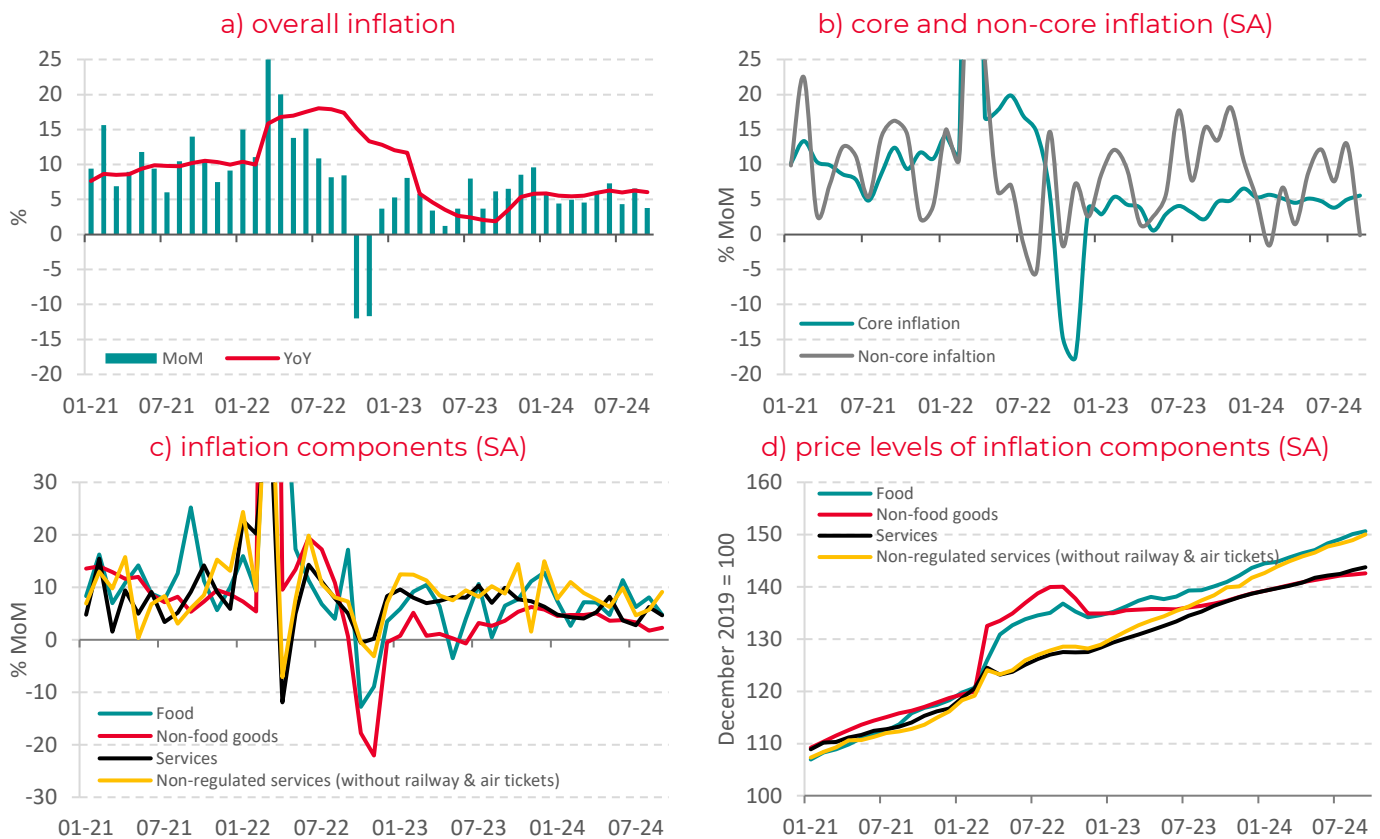
Annual inflation is expected to remain close to 6% YoY in the coming months, and by the end of the year, it is projected to be in the range of 5.5-6% YoY, assuming no major shocks

Core inflation increased to $\approx 5.6\%$ MoM in September 2024 (Fig. 7.b), still a modest rate given the current economic conditions

The acceleration in core inflation is mainly due to rising prices for non-regulated services, which increased from around 8% MoM in August to over 10% MoM in September. Even excluding highly volatile international rail and air transportation, non-regulated service price growth rose from around 6% MoM to over 9% MoM (Fig. 7.c). The most significant non-regulated service category, market-based household services, saw price hikes of approximately 11% MoM in September, with an average monthly increase of more than 10% MoM throughout the year. This substantial price growth is linked to the significant rise in production costs for goods and services in Belarus due to excess demand and a shortage of workers.

Core inflation continued to be restrained by the very slow price dynamics of non-food goods, with their annualized seasonally adjusted growth barely exceeding 2% MoM in September (Fig. 7.c). Strict price controls have strongly slowed and limited the pass-through of increased costs into actual prices. As a result, the price level for non-regulated services in September 2024 exceeded that of non-food goods by more than 5%, signaling the buildup of inflationary overhang. The impact of government price controls is less pronounced in food inflation (Fig. 7.c), where price increases remained high in September, particularly for coffee (over 20% MoM due to rising global prices), grains and legumes ($\approx 13\%$ MoM), pasta and confectionery (≈ 8 and 13% MoM), oils and fats (over 12% MoM), and catering ($\approx 11\%$ MoM).

Figure 7. 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. The dynamics updates once new data are published.