

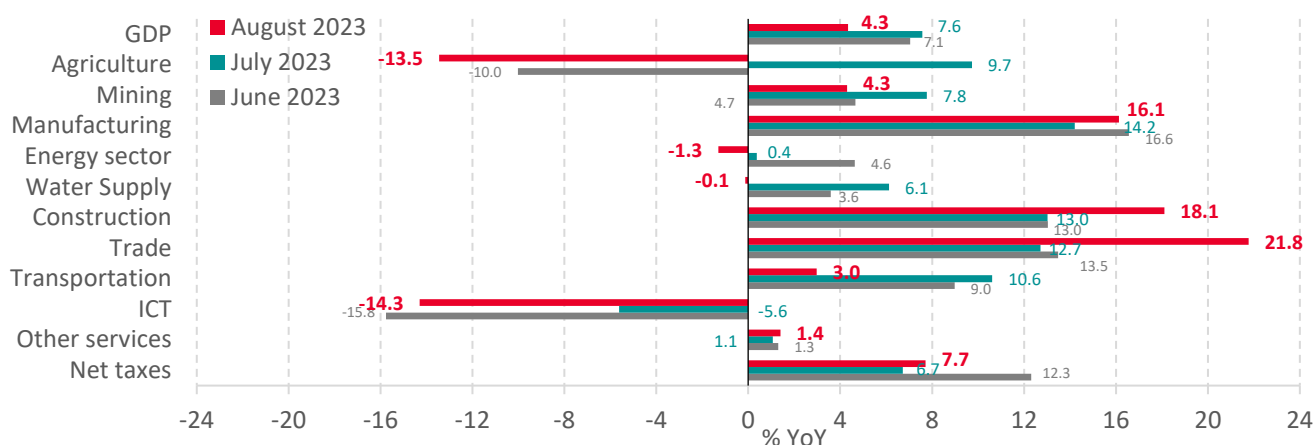
The Belarusian economy remained overheated in August

GDP grew by 3.1% (YoY) over the eight months of 2023, including a $\approx 4.3\%$ growth (YoY) in August 2023 (Figure 1). The slowdown in annual growth from $\approx 7.6\%$ (YoY) in July is mainly explained by a decrease in agricultural output due to a lower grain harvest versus 2022. At the same time, the gross harvest of grain crops this year is generally comparable to the 2019 and 2021 harvests.

GDP (seasonally adjusted) grew by $\approx 1.3\text{--}1.4\%$ in August versus July 2023. It was possible to win back the July losses and return to the local June output peak. Strengthening investment demand and high consumer activity supported GDP in the context of loose monetary conditions. On the production side, this was expressed in maintaining a high level of output in industry and trade, as well as in increasing the scope of civil works.

Based on the results of the first nine months of the year, the accumulated GDP growth may amount to 3.2–3.5% (YoY). This will correspond to the stagnant output dynamics: maintaining its seasonally adjusted volume near the local June peak value. Further GDP growth at a high rate is constrained by supply side limitations associated with a shortage of workers, the challenged availability of technology, and the increasing complexity of logistics.

Figure 1. Dynamics of GDP and value added in Belarusian sectors (given month versus the corresponding month of the previous year: %, YoY)



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

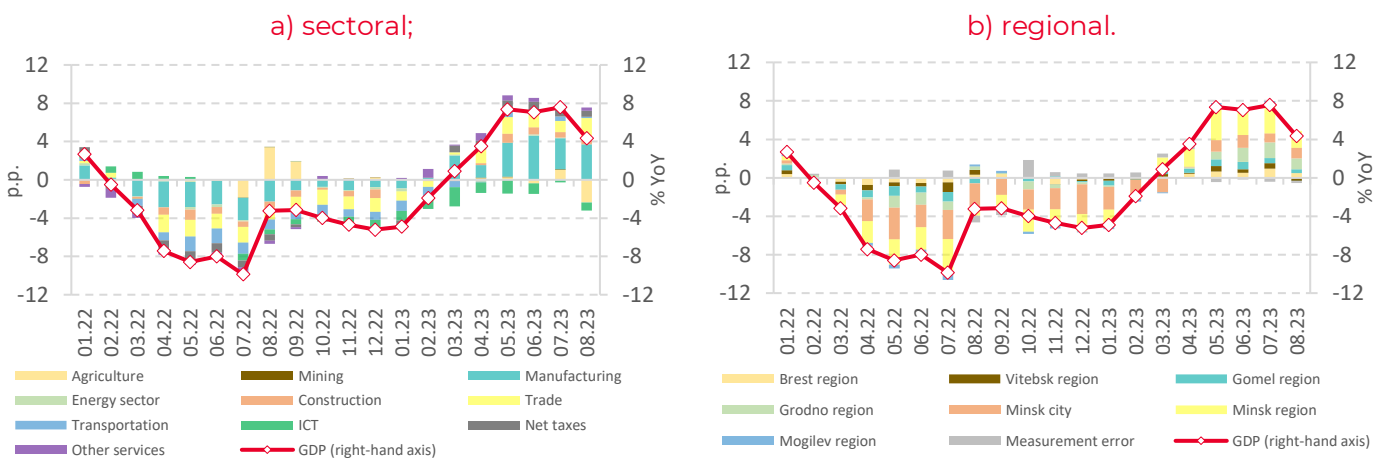
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

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Value added in the manufacturing industry grew by $\approx 16.1\%$ (YoY) in August, thus adding ≈ 3.7 percentage points to annual GDP growth (Figure 2.a)

The output of manufacturing industries (seasonally adjusted) in August also increased versus the previous month, which allowed to win back the July drawdown (Figure 3.a). A noticeable recovery was observed in the Minsk region. Strong growth is estimated in the Gomel region, which offset the output decline in the Vitebsk region due to repairs at the Naftan Oil Refinery. An increase in production in the above-mentioned regions may indicate an increase in the production of potash fertilizers and petroleum products, taking into account the noticeable increase in wholesale trade in August. One cannot exclude continued support provided to the mechanical engineering industries by high demand in Russia. It is likely that the demand generated by the Russian military-industrial complex so far offsets the negative effects of the strengthening of the Belarusian ruble against the Russian ruble on the output of Belarusian machine-building enterprises. Given the high dependence of industry on conditions on the Russian market, the sustainability of output growth is questionable. In addition, stability of production capacity utilization for three months in a row (according to the Ministry of Economy) may indicate in favor of the hypothesis of restrictions on the supply side.

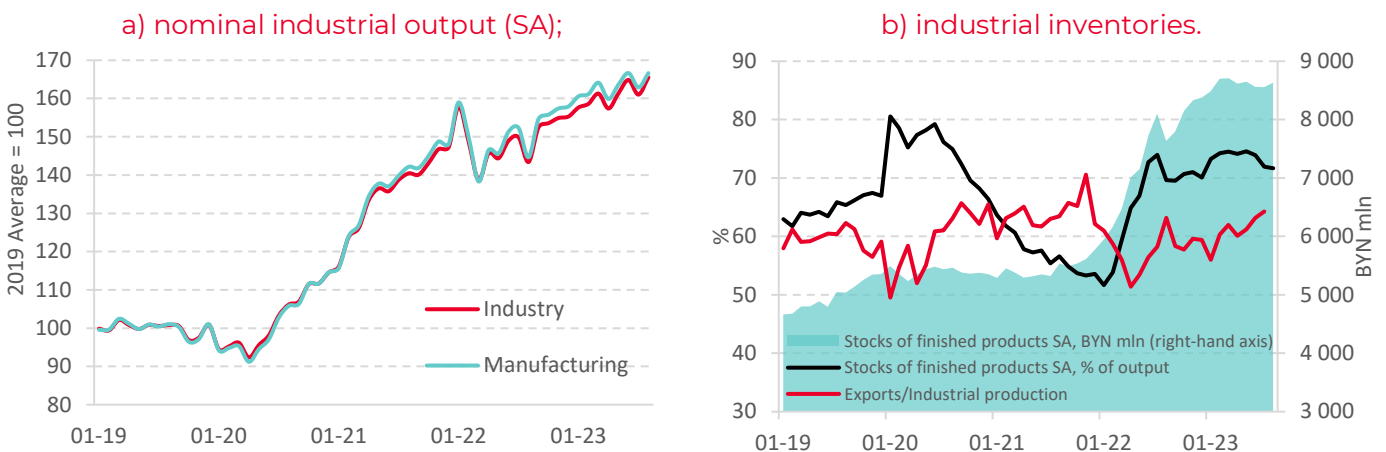
Figure 2. The GDP growth structure in Belarus



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

Warehouse inventories increased in nominal terms in August (Figure 3.b), but at the same time, they slightly decreased versus output (seasonally adjusted)

Figure 3. Dynamics of industrial output and inventories

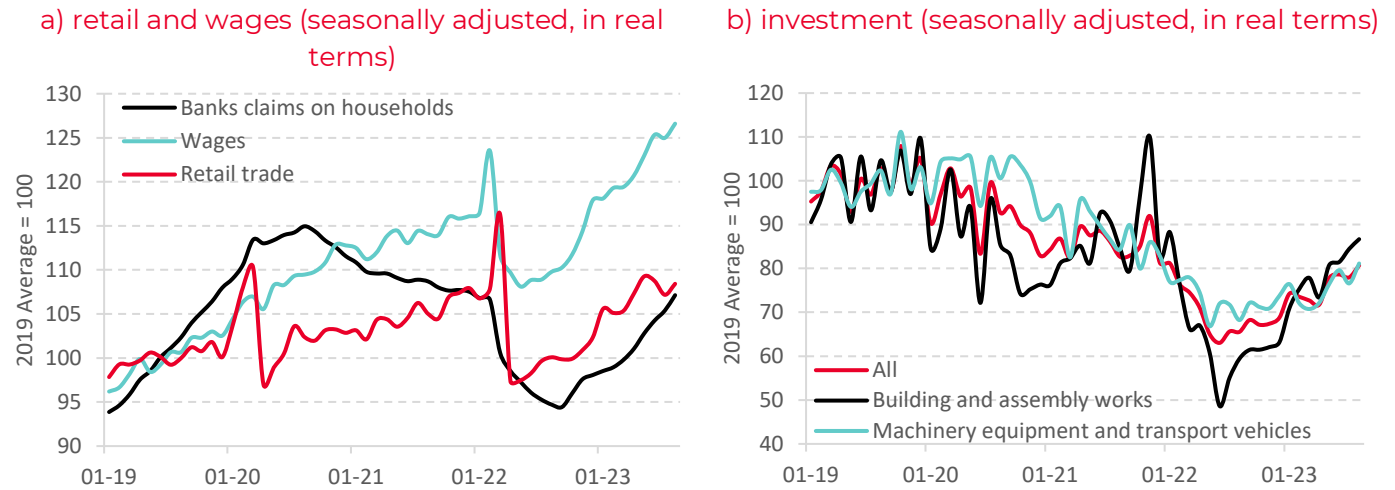


Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

Increased investment accompanied industrial production recovery in August

Capital investments in both construction and machinery, equipment and vehicles increased in August versus July (seasonally adjusted) (Figure 4.b). Due to active recovery this year, value added in the construction industry increased by $\approx 18.1\%$ (YoY) in August (Figure 1), thus adding ≈ 0.8 p.p. to annual GDP growth (Figure 2.a). Investment has been ramping up in the context of overly loose monetary policy, strong demand in Russia, and, possibly, in the context of fiscal and/or quasi-fiscal stimulus. The effect of these factors is not sustainable, but in the near future, they can support investment demand.

Figure 4. Retail trade and investment dynamics



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. Real investment indicators have been calculated by deflating nominal investment by construction price indices. Seasonal adjustment has been made by using the X13 and TRAMO/SEATS procedures in the JDemetra+ software application. The indicator dynamics updates once new data are published.

Consumer demand remained high in August, supporting retail and service sector dynamics

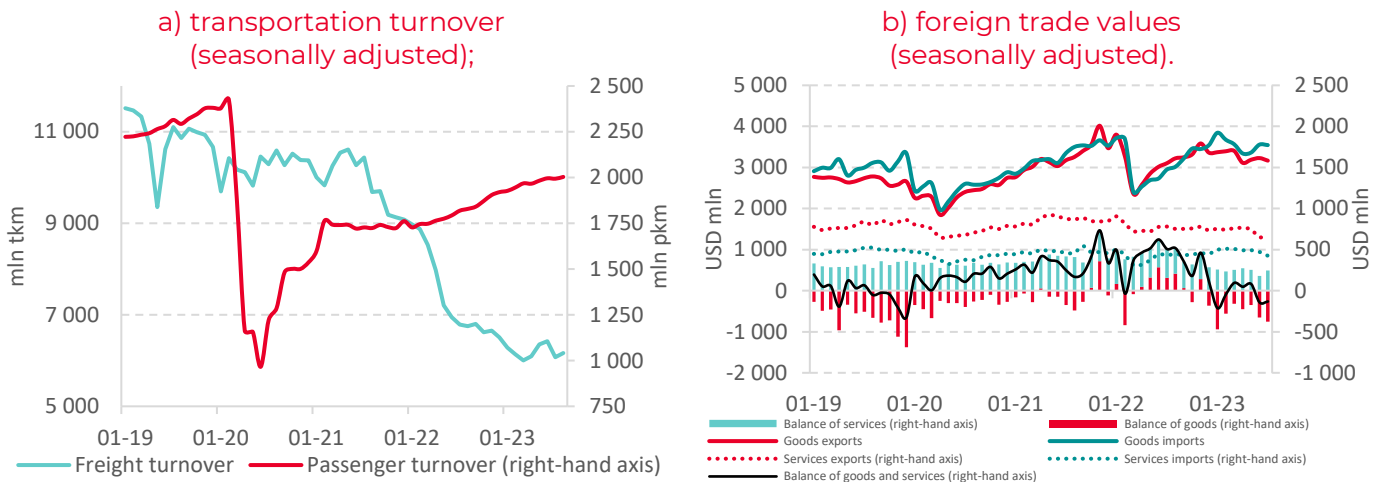
Retail turnover (seasonally adjusted) increased in August versus July. In general, over the past few months, consumption of goods has remained close to the peak values, exceeding the pre-war levels (Figure 4.a). The turnover of public catering, as well as value added of other services (except for transport, trade, information and communications) continued to grow in August. All this points to continued high consumer demand stimulated by easing lending conditions and rising wages (Figure 4.a). The noted factors will continue to support consumption in the rest of the year. However, due to the saturation of pent-up demand and limitations on the supply side, stimulating demand will largely lead to the accumulation of an inflationary overhang rather than to a significant output expansion.

Due to consumer demand strengthening this year and as a result of the industrial production recovery, value added in the trade sector increased by $\approx 21.8\%$ (YoY) in August (Figure 1), thus adding ca. ≈ 2 p.p. to annual GDP growth (Figure 2.a)

Transport sector remains stagnant due to weak freight traffic

This year's recovery in the industrial production, construction and trade sectors is not accompanied by a recovery in transport freight turnover, which remained near local lows in August: ca. 38% below the monthly average value in 2021 (seasonally adjusted; [Figure 5.a](#)). This is due to the loss of a significant share of transit traffic, as well as, possibly, the increasing importance of the Russian freight forwarders operating in the Belarusian market. In August, the transport industry continued to be supported by the growth in passenger turnover ([Figure 5.a](#)), which was mainly ensured by longer trips rather than an increase in the number of passengers.

Figure 5. Dynamics of transport and foreign trade indicators (seasonally adjusted)



Note: Seasonal adjustment has been made by using the X13 and TRAMO/SEATS procedures in the JDemetra+ software application. The indicator dynamics updates once new data are published.

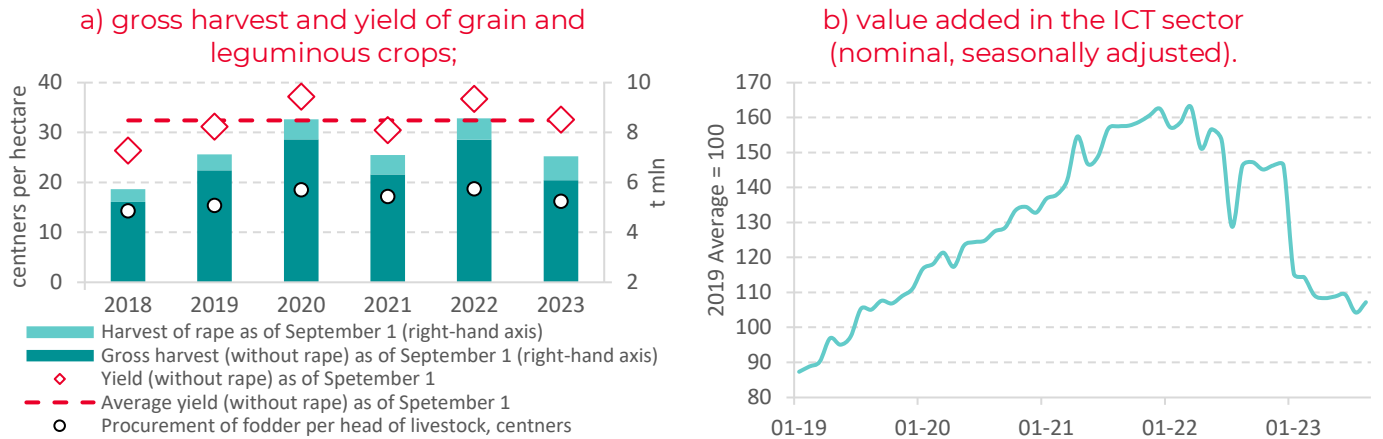
The ICT sector continued to stagnate

Value added in the ICT sector decreased by $\approx 14.3\%$ (YoY) in August, thus subtracting ≈ 0.8 p. p. from annual GDP growth ([Figure 2.a](#)). The volatility of the sector's annual growth rate in recent months largely reflects the effects of last year's output dynamics, as seasonally adjusted value added in the ICT sector (in nominal terms) stagnated in the summer months ([Figure 6.b](#)). Reducing output of ICT services and transport freight turnover could be the key reason for narrowing the surplus in foreign trade in services, which was no longer sufficient to compensate for the deficit in trade in goods in June-July 2023 ([Figure 5.b](#)).

Value added in the agricultural sector decreased by $\approx 13.5\%$ (YoY) in August ([Figure 1](#)), thus **subtracting ≈ 2.3 p.p. from annual GDP growth** ([Figure 2.a](#))

The decrease in agricultural output is associated with a lower gross grain harvest this year versus last year: slightly more than 21% as of September 1. The harvest decrease is explained by a yield decrease (by $\approx 11\%$ (YoY) as of September 1) and a smaller area of sown land. Despite the significant lag from last year, this year's grain harvest cannot be called a failure: the gross harvest is comparable to the figures for 2019 and 2021, and the yield is even higher versus 2019 and 2021 ([Figure 6.a](#)). Therefore, the impact of a reduced harvest in 2023 on inflation will largely depend on grain quality. As of September 1, 2023, the volume of forage harvesting was somewhat lower compared to previous years ([Figure 6.a](#)), which could potentially become a pro-inflationary factor.

Figure 6. Cereal harvest and value added in the ICT sector



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.

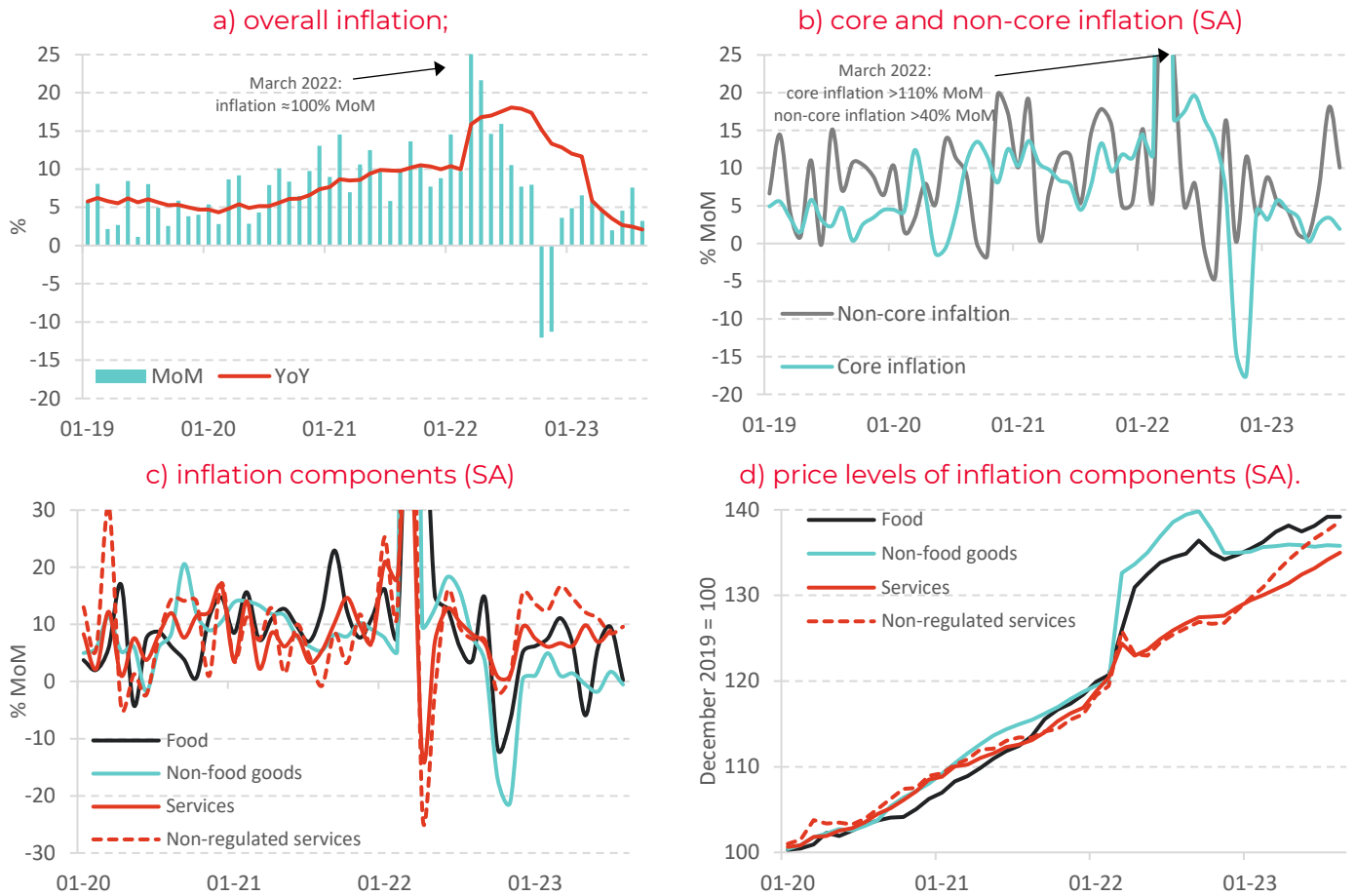
August inflation remained low due to blanket price controls

Annualized monthly inflation (seasonally adjusted) is estimated at $\approx 3\text{-}4\%$ (MoM) in August, while the annual rate has fallen to 2.3% (YoY) (Figure 7.a). A low price growth rate is still associated with the preservation of the blanket price controls exercised by the government. This expresses itself in weak inflation dynamics in the goods segment (Figure 7.c), which translates into low growth in the Core Consumer Price Index (Figure 7.b). Non-core inflation remained relatively high in August (Figure 7.b) due to the rise in prices for tobacco products, fruits and vegetables (seasonality adjusted).

Inflation in unregulated services — a proxy for sustainable price pressure — is estimated at $\approx 9\text{-}10\%$ (MoM) in August (Figure 7.c). Price increases for unregulated services remained high. This may indicate the presence of inflationary pressure from overheated consumer demand, the translation of which into prices in the goods segment is still suppressed by their strict government regulation. If this policy continues, annual inflation may fall slightly below 2% (YoY) in September. It will begin to accelerate in October and could reach $5\text{-}7\%$ (YoY) by the end of 2023 against the backdrop of increased pressure from domestic demand and wages, a likely weakening of the Belarusian ruble, and accelerating inflation in Russia.

A moderate risk for inflation in Belarus is a reduction in grain harvests and the volume of forage harvesting. Another threat is posed by the growing gap between prices for unregulated services and prices for non-foods in an environment of loose monetary policy and strict government price controls (Figure 7.d). This may lead to the accumulation of an inflationary overhang, materialization of which is fraught with a surge in inflation and the need for an aggressive tightening of monetary policy. A gradual tightening of monetary policy is needed as early as 2023 to mitigate potential negative consequences.

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 X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment.