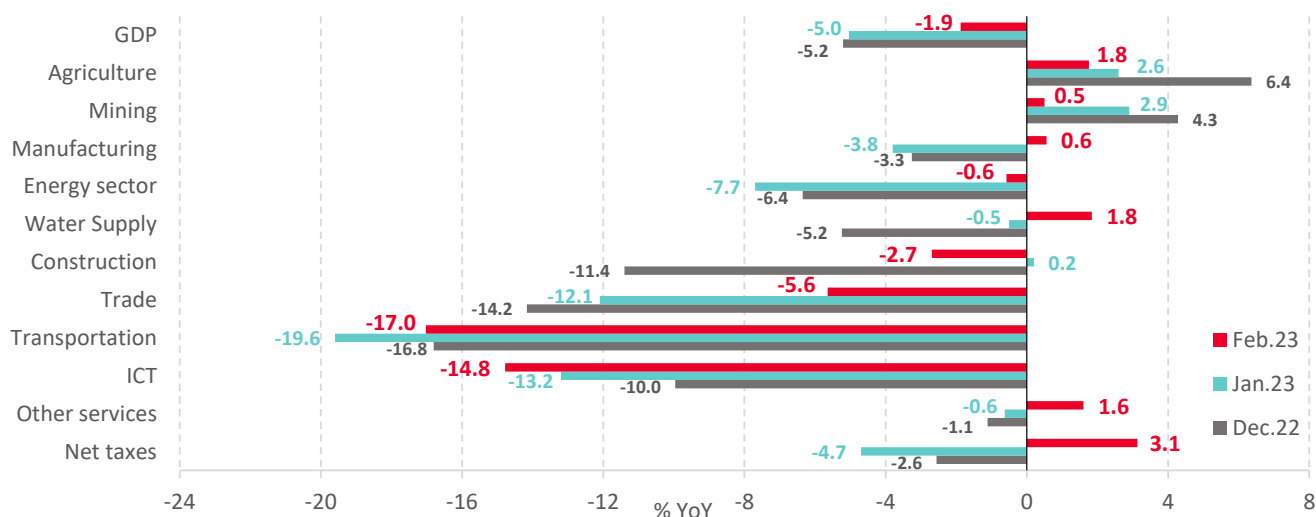


## GDP of Belarus showed signs of recovery in February

The GDP of Belarus decreased by 3.6% (YoY) in the first two months of 2023. In February alone, this decrease in the indicator was estimated at  $\approx 1.9\%$  (YoY) after a  $\approx 5.0\%$  (YoY) decrease in January. The GDP volume (seasonally adjusted) increased significantly (by  $\approx 0.7\%$ ) versus January. This indicates the shaping of the output recovery dynamics, although the risks regarding its strength and resilience are still relevant. The recovery dynamics of economic activity was mainly contributed by growing manufacturing output, increasing net taxes on products, and a reduction in the decline in wholesale trade (Figure 1; Figure 2.a). Probably, some Belarusian enterprises have managed to establish imports of components for the production of cars and trucks, and to keep supply chains to export petroleum products. In addition, one should not exclude an increase in the potash fertilizer output, including against the backdrop of rumors about the easing of the EU sanctions. In February, GDP continued to be constrained by the decreasing ICT sector output, as well as by the declining transport industry. The GDP decline in Q1-2023 will be  $\approx 2\text{--}3\%$  (YoY).

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.

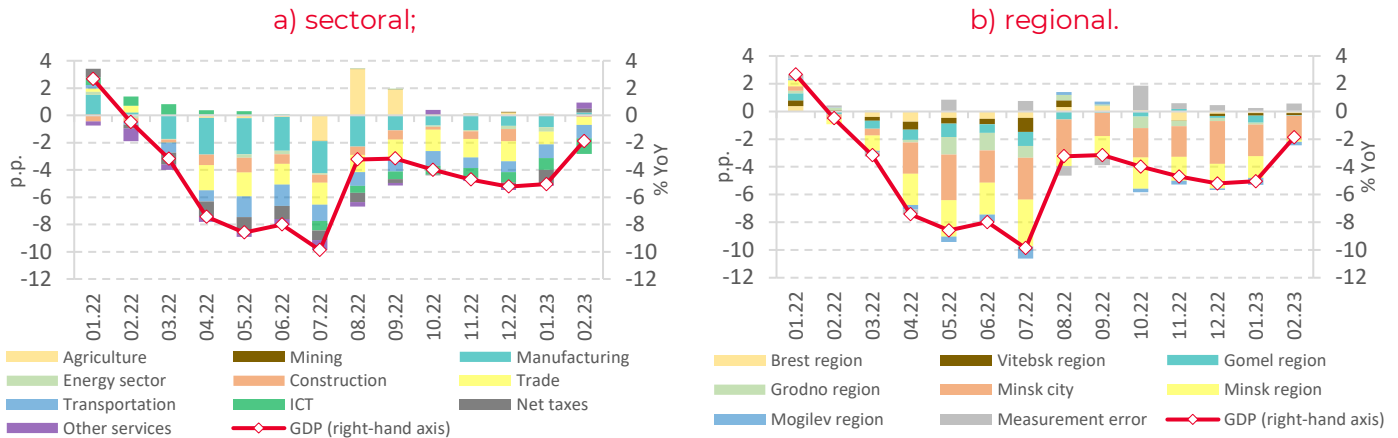
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

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**The value added of manufacturing grew by ≈0.6% (YoY): this is the first increase (since February 2022) versus the corresponding month of the previous year**

The contribution of the manufacturing sector to the GDP change in February 2023 turned out to be positive (≈0.15 p.p.) after being negative (≈0.9 p.p.) a month earlier (Figure 2.a). The output of the manufacturing industries in the Minsk region grew after a double-digit fall since March 2022, and annual production growth accelerated in the Gomel region. In the latter case, there may be an effect from growing oil refining in the context of establishing exports and significant benefits due to more pronounced Urals oil price discounts versus Brent oil pricing.

Figure 2. The GDP growth structure in Belarus



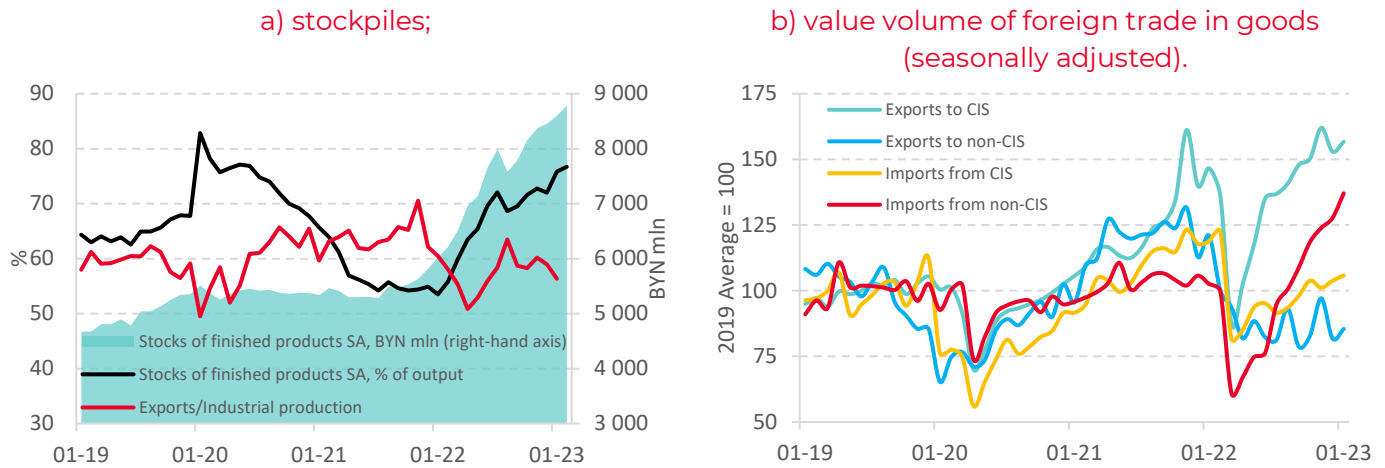
**Note:** The estimates update once the data are verified. The energy sector includes water supply.

The low base had a positive effect on the output dynamics (YoY) in the Minsk region: its decline began in February 2022 as Lithuania stopped potassium transit (Figure 2.b). Potash production was slightly higher in February 2023 than in February 2022 due to the adjustment of supply channels through Russia. However, judging by the industry dynamics, potash output is still tens of percent below the full capacity utilization. At the same time, the low base effect alone does not explain production recovery in the Minsk region. The output increase was seen in February at large machine-building enterprises (BELDZHI and/or BelAZ), which probably managed to establish the supply of components and to establish selling their products to Russia. This factor could also contribute to a noticeable reduction in trade decline in February (Figure 1) due to wholesales. The dynamics of the processing sector in other regions of the country indicates the persistence of the previously identified trends: the food industry and other engineering subsectors (including the electronics subsector and the military-industrial complex) presumably sustain their output growth (YoY); however, this growth is limited by production constraints.

**Stockpiles continued to grow in February: their volume versus output reached the levels last observed during the acute phase of the COVID-19 pandemic in 2020 (Figure 3.a).** Consequently, the recovery of industrial production is partially accompanied by work in stock, which will have negative financial consequences if the sanctions restrictions become long-term.

**The annual growth rate in the manufacturing industry will accelerate in the coming months,** as the shock dip of March-April 2022 will quit calculations. At the same time, **the stability of the recovery dynamics** is not obvious amid growing inventories, monetary stimulus, price regulation, and questions about sustainability of sales markets, including due to the effectiveness of secondary sanctions.

Figure 3. Dynamics of stockpiles and foreign trade in goods



**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.

### Net taxes on products added $\approx 0.3$ p.p. to the GDP change (YoY) in February after their negative GDP contribution of $\approx 1$ p.p. in January

The increase in net taxes may be due to higher excise taxes on alcohol and tobacco adopted in early 2023, as well as due to the continued growth in imports from non-CIS countries at the beginning of this year (Figure 3.b). It is noteworthy that the explosive growth of imports to Belarus was identified in non-food products (+66.6% (YoY) or +\$285 million (YoY) in January) amid subdued consumer demand (Figure 4.a). This indirectly proves the [hypothesis](#) that Belarus re-exports goods to Russia in the context of differences in the sanctions regimes.

### The decline in the transport industry took $\approx 1$ p.p. from the GDP change (YoY) in February

The value added in the sector fell by  $\approx 17\%$  (YoY) in February following its contraction by 19.6% (YoY) in January (Figure 1). The fall is associated with a deep decline in cargo turnover (-34.2% (YoY)). In the context of growth (YoY) in the manufacturing industry, the drop in cargo turnover can be explained by the changes in the industrial sector structure (an increasing share of machine building and a decreasing share of woodworking, production of building materials, and chemical industry), an increasing share of stockpiling output, and a decrease in transit traffic.

### The ICT sector expectedly pulled GDP down in February

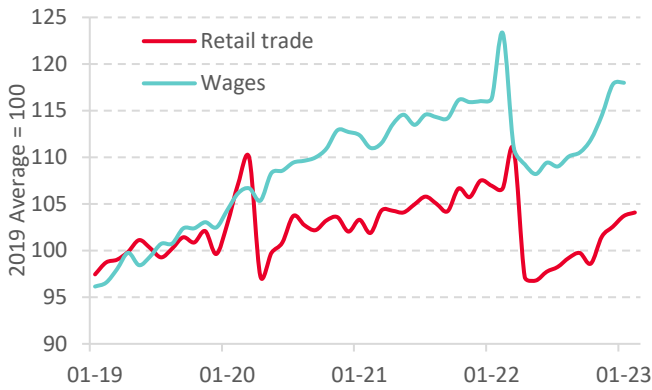
Value added in the ICT sector fell by  $\approx 14.8\%$  (YoY) in February after declining by 13.2% (YoY) in January (Figure 1). As a result, this sector made a negative contribution to the GDP change for  $\approx 1.1$  p.p., which was the worst contribution since the onset of the current crisis (Figure 2.a). A significant output rate decline in the ICT sector will continue until Q3-2023 at least.

### Investments slowed down in February after their surge in January

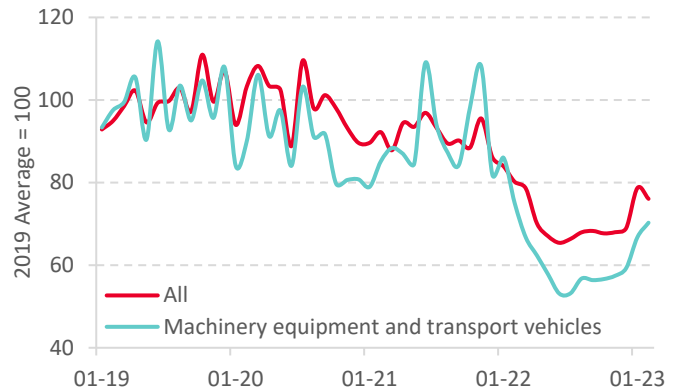
The volume of investments slightly decreased in February versus January due to a downward adjustment in construction (Figure 1) as well as in other works and costs. Investments in machinery, equipment and vehicles, by contrast, continued to recover, albeit at a slower pace (Figure 4.b). Altogether, February investment fell noticeably short of the pre-war levels: the business climate in Belarus remains unfavorable; supply constraints are likely to persist in general despite positive developments in some sectors. Loose monetary policy and, possibly, quasi-fiscal operations are likely to support investment activity in the coming months.

Figure 4. Retail trade and investments dynamics

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



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



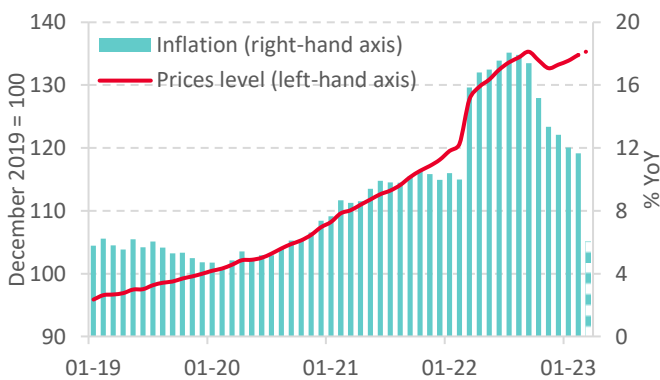
**Note:** The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage (see the Figure: through to January 2023) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators of real investments have been calculated by deflating the nominal investments 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 indicators dynamics updates once new data are published.

**Consumer demand recovery impulse abated**

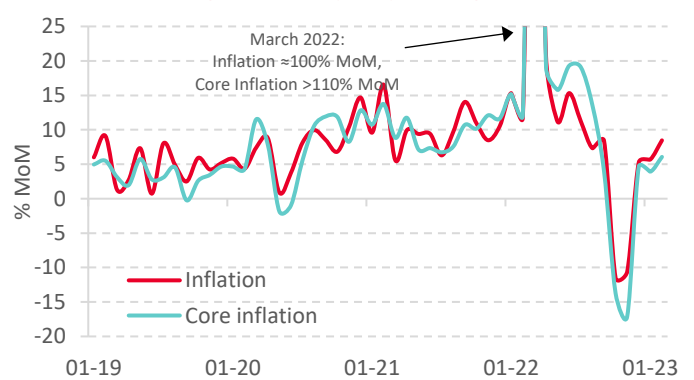
Retail trade turnover slightly increased in February, but the growth slowed down significantly. In the context of shrinking employment, a wage increase started in October 2022 is not yet enough to accelerate consumer demand: it lags behind the pre-war level significantly (Figure 4.a). Decreased household demand for foreign currency in recent months (seasonally adjusted), minimal inflow of fixed-term Belarusian ruble deposits (excluding accrued interest and accrual of family capital) and a weak growth in lending amid available hire purchase and lower interest rates indirectly indicate a decreasing welfare of Belarusians.

Figure 5. Consumer price dynamics

a) price level (seasonally adjusted) and YoY inflation



b) monthly inflation (seasonally adjusted)



**Note:** YoY (year-on-year) is a monthly growth rate versus the corresponding month of the previous year; MoM (month-on-month) is a seasonally adjusted annualized monthly growth rate versus the previous month. Figure 5.a depicts the March 2023 estimate as a dotted curve and a pattern filled bar.

## **Inflation accelerated in February, and prices will continue growing in the coming months**

The seasonally adjusted increase in consumer prices in February is estimated at about 0.56–0.68% (MoM), which corresponds to 7–8.5% in annualized terms (Figure 5.b). It is important to note that the growth of the core consumer price index is gradually recovering after a “manual” index decline in October–November 2022 (Figure 5.b). The inflation trajectory indicates the persistence of pro-inflationary pressure, which gradually translates into price growth after easing administrative price controls. The probable factors of this pressure are the weakening of the Belarusian ruble, increased costs due to the transformation of production and logistics ties, and possibly, recent wage growth.

In the coming months, price growth will continue at a rate of probably around 0.5–0.7% per month (seasonally adjusted). At the same time, there will be a sharp decline in annual inflation. Annual price growth will slow down from 11.7% (YoY) in February to around 6–7% (YoY) in March and closer to 5% (YoY) in April. It should be appreciated that such a trajectory is associated with the withdrawal of the March–April 2022 price spike from the calculation of the annual inflation rate: prices in March 2023 will be compared with the already greatly increased prices in March 2022. The price level itself will continue to grow (Figure 5.a), and pro-inflationary risks prevail due to the high probability of excessive stimulation of domestic demand in an attempt to achieve growth targets.