Belarus Economy Monitor:
trends, attitudes and expectations

Express Analysis
Economic activity and inflation

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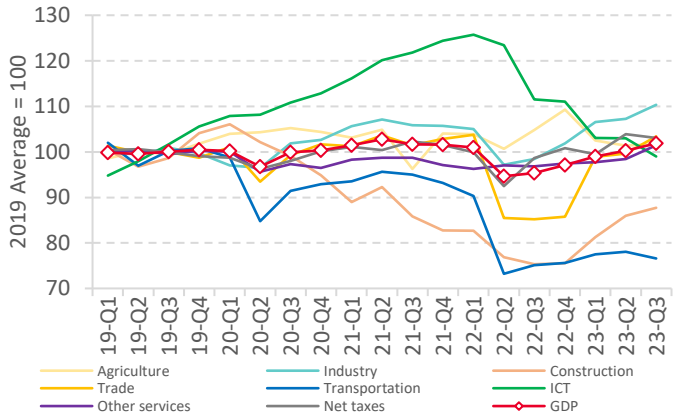
The scale of economic overheating becomes extremely dangerous for macroeconomic and financial stability

GDP grew by 3.5% (YoY) over the nine months of 2023, including a ≈6.3% growth (YoY) in September (Figure 2.a). In September, the volume of GDP (seasonally adjusted) increased by ≈0.3% versus August 2023. As a result, in general, the Belarusian economy showed noticeable growth in Q3-2023, and the output volume was close to the average quarterly value of the pre-war year 2021 (Figure 1). Excessively loose domestic economic policy, continued high demand in Russia, and operations of upgraded supply chains delivering Belarusian goods through Russia supported economic activity.

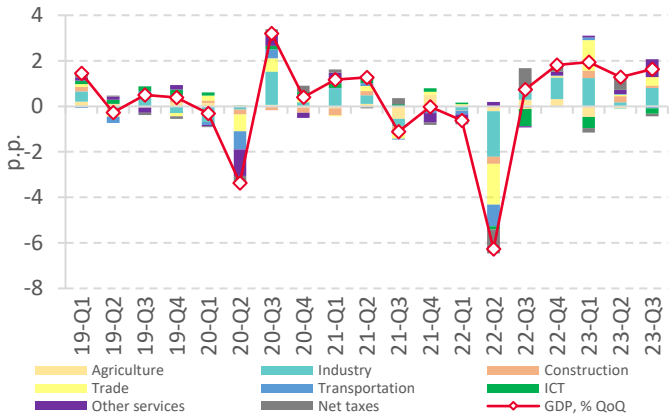
In Q3-2023, the Belarusian economy operated above the level of the optimal use of production factors. This weakens the prospects for maintaining high growth rates. At the same time, the government appears to be committed to achieving its 2023 targets through an over-incentive economic policy. This could ensure GDP growth of 3.8–4% by the end of 2023, but at the cost of further widening of the positive output gap and accumulating inflationary overhang.

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

a) 2019 average = 100



b) decomposition of quarterly GDP growth (SA)



Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The results of the Q3-2023 seasonal adjustment are preliminary. 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.

The manufacturing industry showed significant growth in August–September

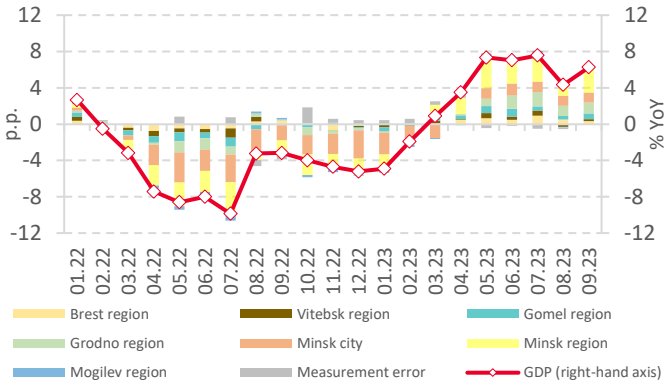
The output of manufacturing industries (seasonally adjusted) increased in September versus August (Figure 2.b). As in the previous month, the key contribution to the production increase were the Gomel and Minsk regions, as well as the city of Minsk. This may indicate the continuity of relatively high — for this period after February 2022 — production volumes of petroleum products, potash fertilizers, engineering products and, possibly, metallurgical industries. In general, according to the results of Q3-2023, this sector provided the largest contribution to the quarterly GDP growth (Figure 1.b), and the volume of its value added significantly exceeded its average value in 2021 (Figure 1.a). Developing supply chains through Russia support the production of fertilizers and petroleum products, and high demand from the Russian military-industrial complex supports manufacturers of electronics, optics, machinery, equipment, vehicles and, possibly, metal products. The assumption of outrunning growth in the output of export-oriented enterprises over those oriented towards domestic demand is supported by a noticeable increase in the ratio of exports of goods to the output of manufacturing industries, which in August was the highest since November 2021 (Figure 3.b).

Constraints on the supply side (declining employment, increasing costs of capital accumulation, limited access to technology, etc.) **will increasingly constrain output in the remainder of 2023–2024**.

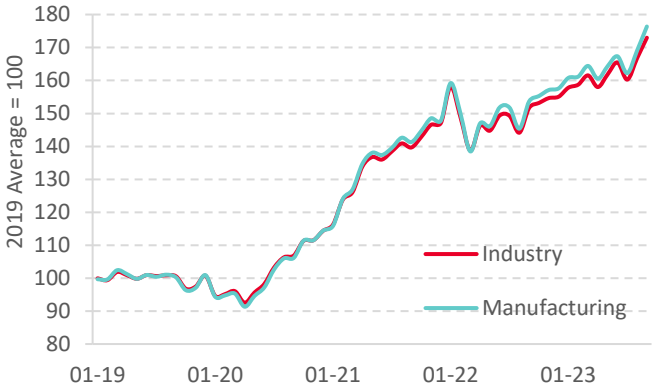
According to the Ministry of Economy of Belarus, production capacities in the manufacturing industry sector were 70% loaded in September, which was the maximum load in a decade. This may prove the results of the calculations based on the BEROC's quarterly projection model are correct, according to which the positive output gap in Q3-2023 widened significantly, signaling an overheating of the economy. In this context, rapidly increasing output requires maintaining large-scale monetary and fiscal incentives, which is possible only in the short run and this happens at the cost of accumulating macroeconomic imbalances (foreign trade deficit, increasing pressure on the Belarusian ruble exchange rate and inflation, deteriorating financial position of firms, etc.).

Figure 2. Regional GDP growth structure in Belarus and industrial output dynamics

a) regional structure of the GDP growth



a) nominal industrial output (SA)

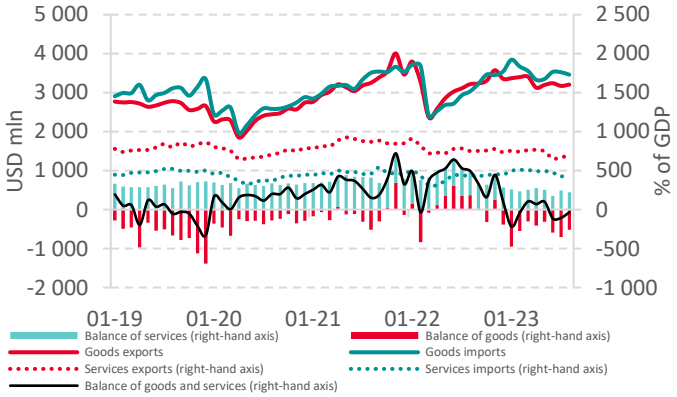


Note: The energy sector includes water supply. SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

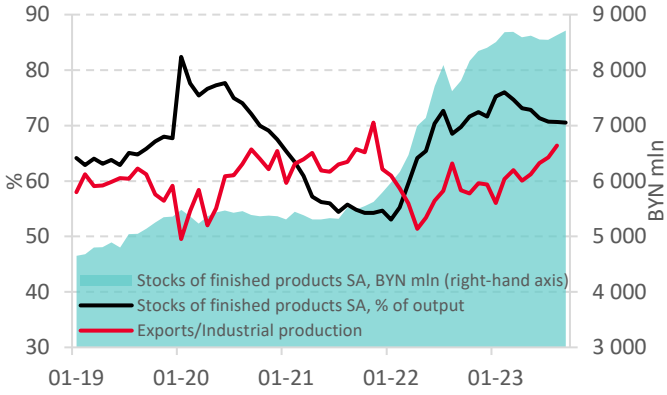
Warehouse inventories increased in nominal terms in September (Figure 3.b), **and they remained virtually unchanged (seasonality adjusted) — staying at a relatively high level — versus the output volume**.

Figure 3. Dynamics of indicators of foreign trade and industrial inventories

a) value volumes of foreign trade (seasonally adjusted)



b) industrial inventories



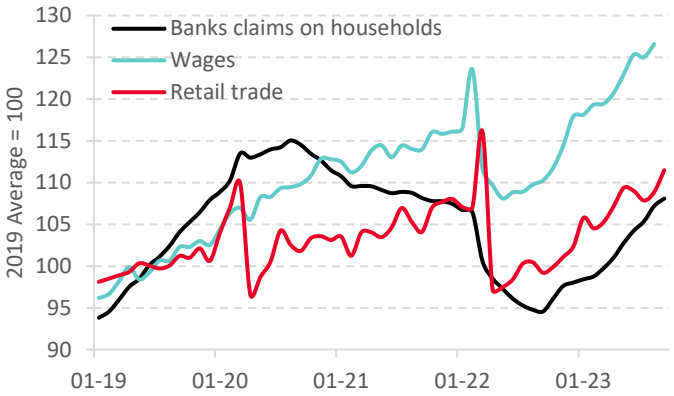
Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

Investments slowed down in September, but showed noticeable growth in Q3-2023

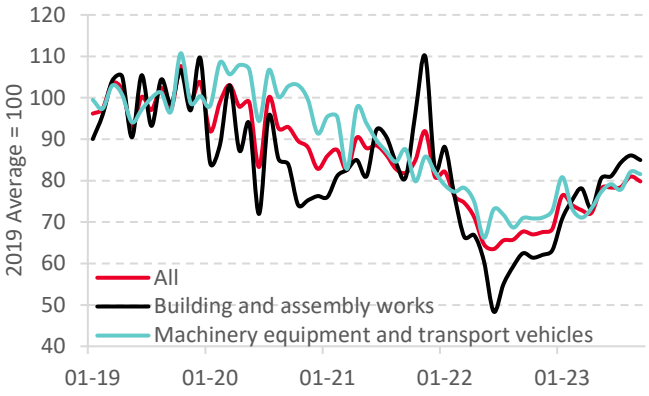
Capital investments in construction, machinery, equipment and vehicles decreased (seasonally adjusted) in September versus August (Figure 4.b). There may have been a one-off adjustment, and investment will get back to the growth track for the remainder of the year in an environment of loose credit conditions and directive government policy stimulus. In general, in Q3-2023, investment showed significant growth (Figure 4.b), which also translated into an increase in the value added in the construction sector (Figure 1). Maintaining high growth rates of investment activity in the short run is possible due to the directive interventions of the authorities, but ensuring its sustainability in the context of an unfavorable business environment and increased uncertainty of economic prospects is challenging.

Figure 4. Retail trade and investment dynamics

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



b) investment (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 August 2023) 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 September

Retail turnover (seasonally adjusted) increased in September versus August (Figure 4.a). Consumer demand exceeds the pre-war levels and continues to be supported by stimulating domestic economic policies and rising wages amid labor shortages. Against the backdrop of a massive increase in consumer imports and high inflation in unregulated services, the dynamics of consumer activity indicate its overheating. It is very likely that loose monetary conditions and increased household incomes will continue to support high consumer activity in Q4-2023; however, due to the saturation of pent-up demand and constraints on the supply side, the dynamics of consumer activity will weaken in 2024.

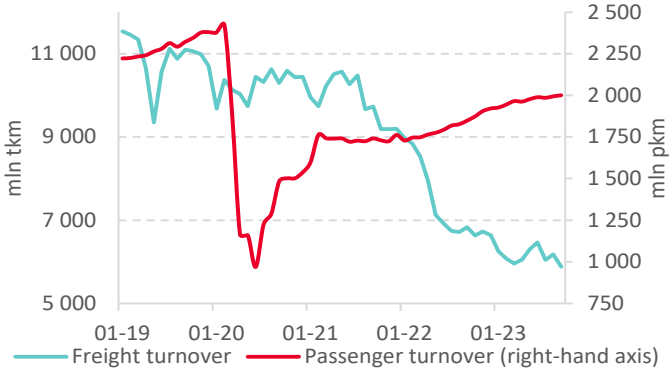
Due to the growing consumer demand and industrial production, the value added in the trade sector in Q3-2023 exceeded its average quarterly volume in 2021 (seasonality adjusted) **and made a significant contribution to GDP growth** (Figure 1).

The transport sector showed no signs of recovery in September

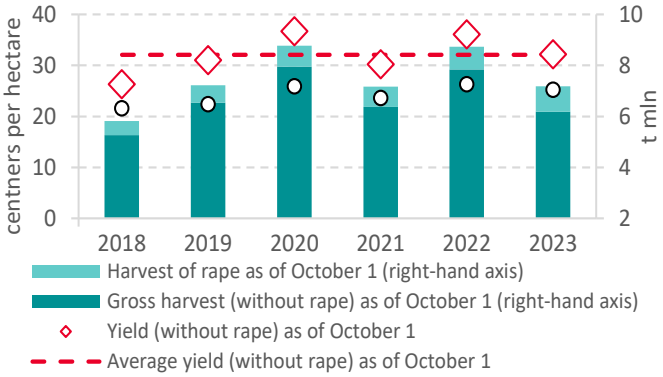
Freight turnover slightly decreased (seasonally adjusted) versus August, but it still remains at the local lows, falling short of about 40% of the average monthly volume in 2021 (Figure 5.a). The growth of the manufacturing industry was unable to influence the total freight turnover in the transport sector significantly. It is quite possible that an increasing share of the Belarusian market moves to Russian freight forwarders, and transit recovery is not in sight in the short run. The dynamics of passenger traffic in recent months indicates the attenuation of the recovery process (Figure 5.a). Passenger turnover is likely moving toward stagnation amid overheated consumer demand. Value added in the transport sector generally declined in Q3-2023 (seasonally adjusted) and remained ≈19% below its 2021 quarterly average (Figure 1).

Figure 5. Dynamics of indicators of the transport sector and grain harvest

a) transportation turnover (seasonally adjusted)



b) gross harvest and yield of grain and leguminous crops, as of October 1



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.

Value added of the ICT sector decreased in Q3-2023 again

According to the estimates based on preliminary data from Belstat, the value added in the ICT sector in Q3-2023 fell below its quarterly average in 2019 (Figure 1) due to reputational damages, toxicity and relocation of businesses and professionals to other countries. Due to the reducing output of ICT services and transport freight turnover, the foreign trade surplus in services narrowed significantly this year, and in the summer months, its size was no longer sufficient to compensate for the deficit in trade in goods (Figure 3.a).

The contribution of the agricultural sector to quarterly GDP growth was close to neutral in Q3-2023 (Figure 1)

The harvest of grain and leguminous crops this year turned out to be noticeably smaller compared to last year, but generally comparable with the indicators of 2019 and 2021. As a result, the lag in value added in the sector from last year's indicators is largely a consequence of the high harvest in 2022: the quarterly dynamics of value added in the agricultural sector stayed close to zero (Figure 1).

Inflation remained subdued in September

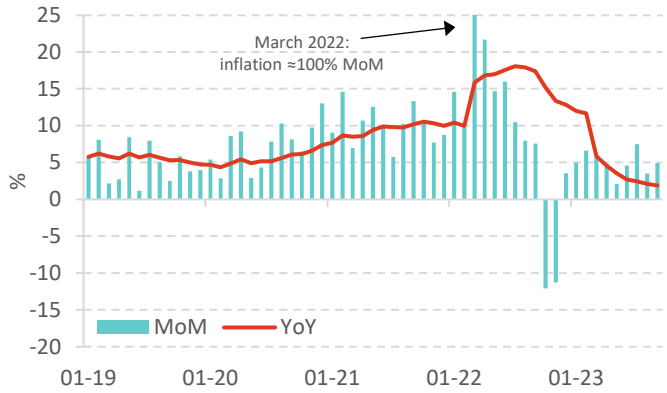
Annualized monthly inflation (seasonally adjusted) is estimated at ≈5% (MoM) in September. The annual indicator updated its historical low: 2.0% (YoY) (Figure 6.a). As in previous months, low inflation is associated with the growth of the core consumer price index suppressed by blanket price controls. Non-core inflation remained high (Figure 6.b) largely due to the rise in prices (seasonally adjusted) for tobacco products and alcohol, as well as for fruits and vegetables.

The inflation dynamics in terms of aggregated components in September remained similar to the previous month. In the goods segment, the translation of price pressure from excess demand and rapid growth in wages into actual inflation was hindered by a strict state price regulation system (Figure 6.c). Price growth for unregulated services — which is a proxy for persistent inflationary pressure — remained relatively high but slowed in September (Figure 6.c). This slowdown is explained by a reduction in the volatile cost of air travel, which does not yet provide reasons for concluding that inflationary pressure weakens. The price level for unregulated services continued to deviate upward from the price level for non-food products (Figure 6.d), which may signal that inflationary overhang has been accumulating.

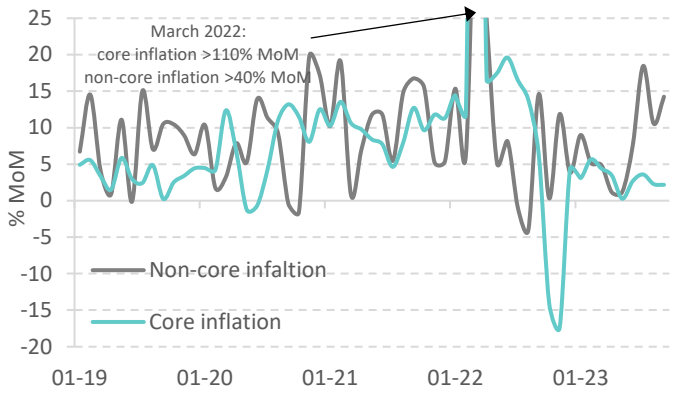
In October, annual aggregate inflation will accelerate to 3–4% (YoY), since the calculation of the indicator will exclude a decrease in prices in October 2022, which was caused by the introduction of a new price regulation system. By the end of the year, the increase in consumer prices will reach 5–6% (YoY), and it will continue to increase in 2024 if a loose monetary policy continues.

Figure 6. Inflation dynamics in Belarus

a) overall inflation

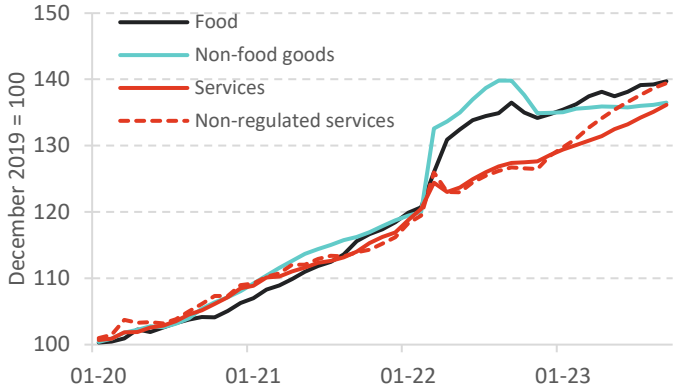


b) core and non-core inflation (SA)



c) inflation components (SA)

d) price levels of inflation components (SA)



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.