

Belarus' GDP growth accelerated in Q2-2024. Economic overheating has intensified amid labor shortages

Belarus' GDP grew by 5.5% in Q2-2024 compared to Q2-2023, following a 4.3% YoY increase in the previous quarter. A surge in investments, high consumer demand, and strong performance of the Russian economy ensured rapid growth in output in Q2-2024.

The overheating of the economy more than doubled, reaching approximately 3.7% of potential GDP in Q2-2024. Consumer demand remained extremely overheated. It was stimulated by soft lending conditions, rising household incomes, and positive consumer sentiment. The consumer confidence index stood at -1.4% in July (up from -4.8% in May 2024) the highest level recorded since surveys began in December 2021.

The labor shortage remained extremely acute. The unemployment rate in Q2-2024 fell to a historic low of 3.0% of the workforce. There was fewer than one unemployed person per job vacancy. The shortage of workers forced businesses to actively raise wages – adjusted for inflation, wages in Q2-2024 were more than 22% higher than the average level in 2021. The labor shortage continued to be the main factor limiting the expansion of production capacity in line with increased demand.

The state of foreign trade deteriorated compared to previous years due to declining export prices and excessive domestic demand. The trade balance of goods and services fluctuated around 0% of GDP, following surpluses in previous years. In addition, foreign currency earnings were delayed due to sanctions pressure. Consequently, there was moderate pressure on the domestic foreign exchange market, causing the Belarusian ruble to weaken slightly in Q2-2024 and remain moderately undervalued.

Consumer prices growth remained restrained in Q2-2024, despite increased pressure from demand and the labor market. Inflation was 6.1% QoQ for Q2-2024 (annualized growth rate to the previous quarter with seasonal adjustment). Prices of goods, especially non-food items, grew slowly due to price controls. At the same time, price growth in the non-regulated services sector remained elevated due to the predominance of inflationary factors. As a result, inflation overhang was accumulating.

Economic policy remained loose in Q2-2024, despite the intensifying economic overheating. Budget expenditures continued to grow rapidly. Monetary policy and monetary conditions almost did not change in Q2-2024 and remained moderately stimulative for economic activity. Lending and the money supply grew at a high rate: the volume of new loans relative to GDP in Q2-2024 remained near a multi-year high of about 74%.

The National Bank responded very cautiously and somewhat inconsistently to the increased inflationary risks only in July. Only auxiliary tools were used: the reserve ratio for banks was raised by 2 p.p., the overnight loan rate and the estimated values of standard risk were increased by 0.5 p.p. These measures will allow market interest rates to reach neutral levels by the end of the year.

The dynamics of economic activity will weaken in the second half of 2024 and in 2025. Inflationary pressure will remain elevated

GDP growth will be around 4% by the end of 2024. Higher interest rates will help moderate the pace of lending. Combined with a slowdown in Russia's GDP growth, this will create conditions for "cooling" the growth of aggregate demand. With a slow adjustment of supply to high demand through investments, Belarus' GDP in the second half of the year will remain at its achieved record level. This corresponds to a growth of around 4% for 2024 as a whole. In 2025, GDP growth will weaken to 0.5–1.5%, gradually returning to a balanced trajectory.

The overheating of the economy will decrease, but it will not be fully neutralized even in 2025, assuming there are no significant negative shocks. This is due to the fact that although market monetary conditions will approach neutral, they will not become restrictive. Non-market lending will persist, budget expenditures will continue to rise, and real wages, though their growth will slow, will remain above the equilibrium level due to a labor shortage. As a result, excess demand will persist in the second half of 2024 – 2025, albeit to a lesser extent compared to Q2-2024.

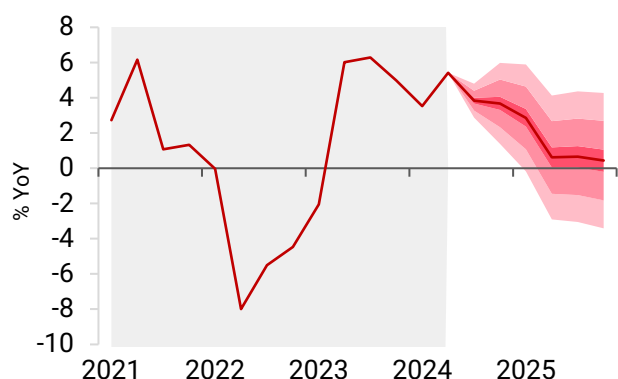
Pro-inflationary pressure will remain elevated in an environment of excess demand, an overheated labor market, accelerated price growth in Russia, and sanctions pressure. If total price control is maintained, consumer prices will increase by 5–7% by the end of 2024. The accumulated inflationary overhang will gradually seep into actual prices, and in 2025, inflation may accelerate to 6–9%.

Risks of lower GDP growth and higher inflation compared to the presented estimates under the baseline scenario prevail in the medium term. Key threats come from the instability of production and logistics chains and the financing schemes for foreign trade operations in a sanctions environment, potential delays in adjusting supply to increased demand while maintaining excessively loose economic policy, as well as the likelihood of a sharp cooling of demand in Russia. A critical deterioration in the financial position of firms due to sudden adverse changes in economic conditions will be highly likely. The financial position of firms largely determines the rate at which inflationary factors transform into actual prices.

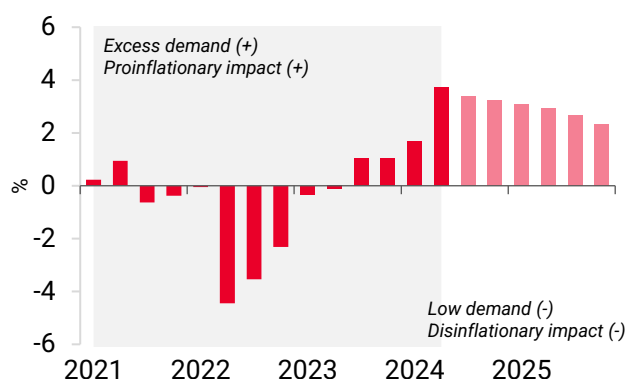
Higher short-term economic growth without accumulating inflationary potential is possible if investments intensify and their efficiency is ensured. Increased demand growth in Russia compared to the expected in the baseline scenario and an increase in energy subsidies in the form of low gas and oil prices from Russia may also lead to stronger economic activity in Belarus.

Dynamics and Forecast of Economic Indicators of Belarus

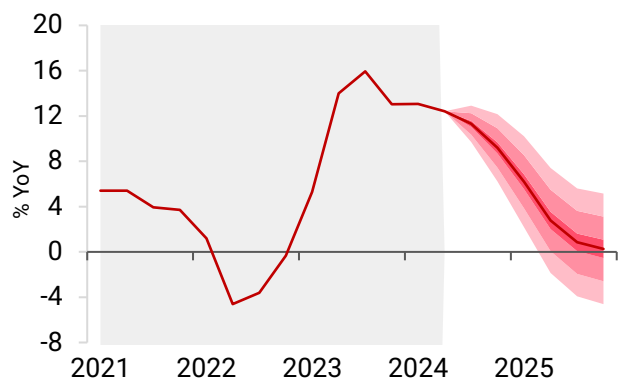
Real GDP
(growth, quarter to the correspond. quarter of the prev. year)



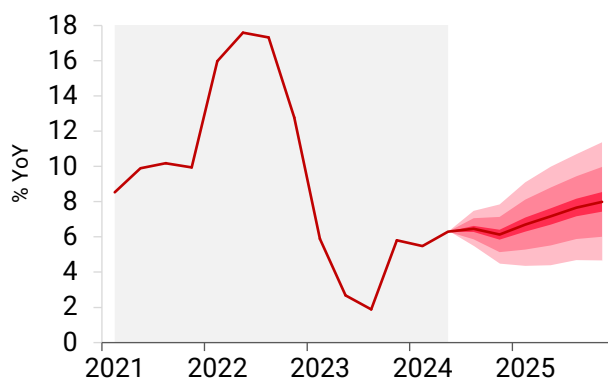
Output gap
(GDP deviation from the potential level)



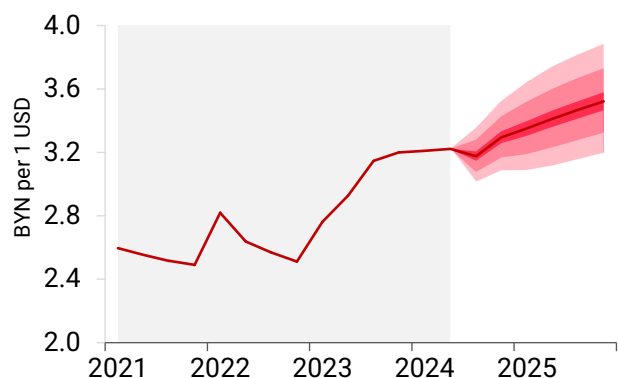
Real wage
(growth, quarter to the correspond. quarter of the prev. year)



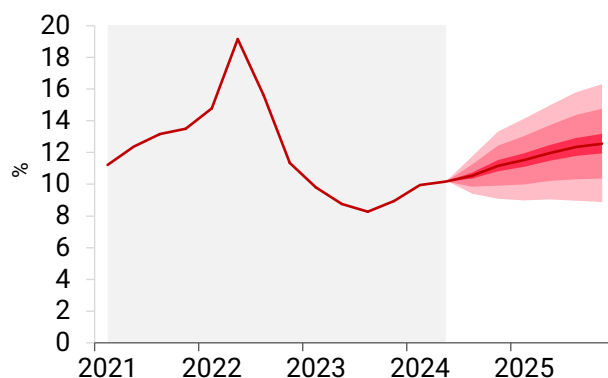
Inflation
(quarter to the correspond. quarter of the prev. year)



Belarusian rouble to US dollar exchange rate
(average for the quarter)



Interest rate on market loans
(average for the quarter)



Source: The BEROC's calculations are based on the Quarterly Projection Model for Belarus ([QPM BEROC](#)).

Note: The figure shows a seasonally adjusted indicator. As new data are published, the indicator dynamics can be updated. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.