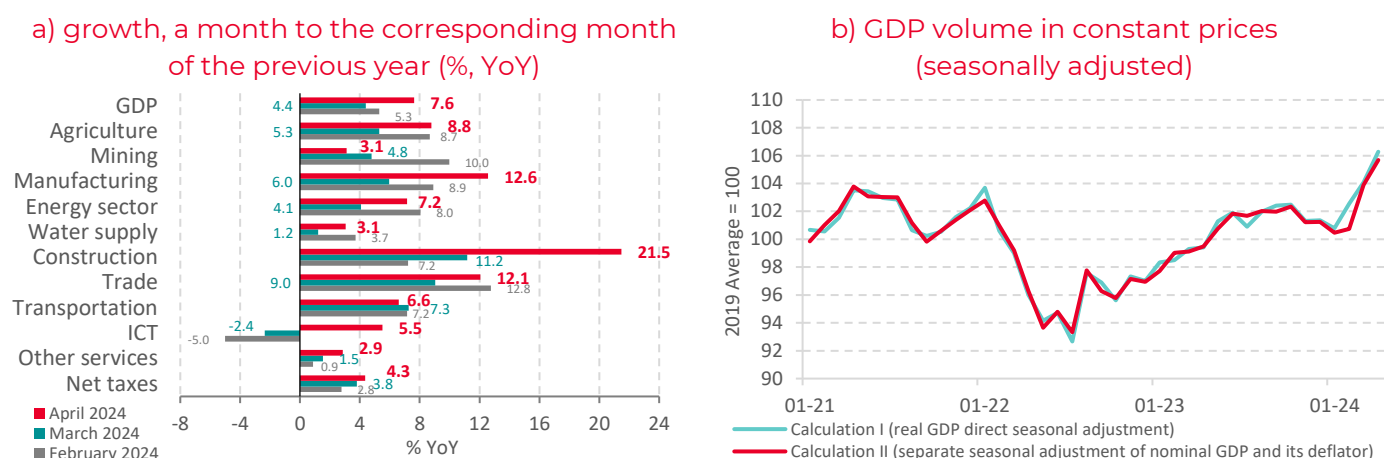


**Belarus' GDP continued growing in April, and the likelihood of the growth to get close to 3% or higher in 2024 has increased significantly**

GDP grew by 5.1% YoY over the four months of 2024, and it grew by ≈7.6% YoY in April only (Figure 1.a). Seasonally adjusted output was ≈2% higher in April versus March, and it was about 4% above its 2021 average value (Figure 1.b). The sectors of agriculture, construction, ICT and paid services largely supported economic growth in April. Seasonally adjusted industrial output and retail trade dynamics weakened slightly, while output remained extremely high. GDP volume is likely to decline through adjustment in May-June, which will correspond to the accumulated annual output growth of about 4–5% YoY.

The dynamics of GDP, labor market, inflation and foreign trade increasingly signal the overheating of the economy and overheating expansion in Q2-2024. At the same time, GDP grows at a high rate in 2024 albeit in an environment of loose economic policies, but without increased stimulus. This indicates that the scale of overheating in 2023 and in Q1-2024 could be less than previous estimates, and the assumption of the likelihood of a higher level of equilibrium output in an environment of structural transformation (expressed in the Macroeconomic Forecast) becomes more relevant. This increases the chances for the GDP growth to be near or slightly above 3% in 2024, if there are no logistics disruptions.

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



**Note:** The indicator dynamics updates once new data are published. Monthly GDP data are estimates, and they should be treated with caution. Quarterly data are more representative and reliable.

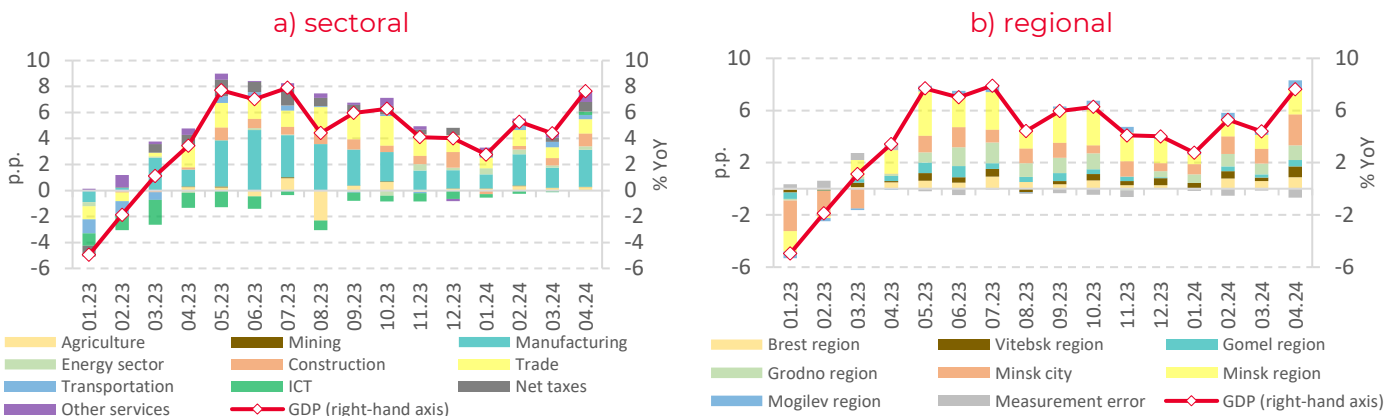
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

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**The structure of monthly GDP growth changed in April: industrial sector and retail trade took a break, while the construction and ICT sectors noticeably picked up steam**

Value added in the construction sector grew by  $\approx 21.5\%$  YoY in April (Figure 1.a), thus providing  $\approx 1$  p.p. of annual GDP growth (Figure 2.a). Monthly dynamics also turned out to be extremely strong: construction works grew by over 7% (seasonally adjusted) versus March. Investments in machinery, equipment and vehicles also increased in April (Figure 4.b). Investment growth, following its decline in Q1-2024, as well as maintaining its volume at low levels (Figure 4.b) do not allow considering it stable. However, if, in light of the ongoing transformations of the Belarusian and Russian economies, businesses increase their expectations of the sustainable demand for their products in the coming years and if businesses invest in expanding production capacity and increasing labor productivity, this will give reason to speculate about Belarus' GDP growth achieved through its increased equilibrium volume. Nonetheless, price controls will continue to limit investment activity. In the long term, the growth potential of the Belarusian economy will remain extremely restrained (about 1–2% per year) due to the institutions that do not foster growth and due to the dominating survival values.

Figure 2. Structure of GDP growth in Belarus (given month compared to the corresponding month of the previous year: %, YoY)



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

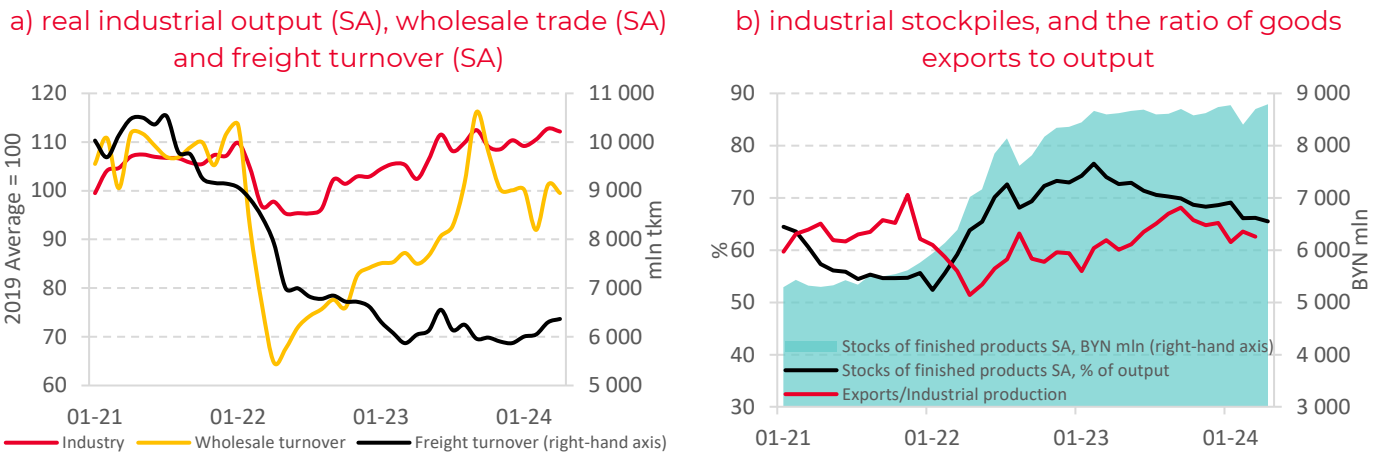
**Value added in the information and communications sector increased in April (for the first time since June 2022) by  $\approx 5.5\%$  YoY (Figure 1.a)**

The output of the information and communications sector showed significant growth (seasonally adjusted) in April 2024 versus March 2024. Perhaps the thesis from the previous [Express Analysis](#) about the ICT sector to start recovering from a long recession becomes a reality. At the same time, one month of growth is not enough to conclude that this process is sustainable even if the growth is very strong.

**The agriculture and transport sectors increased value added in April by  $\approx 8.8$  and  $\approx 6.6\%$  YoY, respectively (Figure 1.a)**

Accelerated growth in agriculture may be associated with a warmer April 2024 and, accordingly, with a possible time shift in the sowing campaign. Seasonally adjusted cargo turnover increased by about 1% in April versus March (Figure 3.a), while passenger traffic stagnated. Cargo turnover growth may be associated with increased investment and, possibly, with some recovery in transit. At the same time, the volume of cargo turnover remained  $\approx 36\%$  below its 2021 level.

Figure 3. 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 wholesale trade 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.

### Industrial value added increased by $\approx 11.4\%$ YoY in April (Figure 1.a), but the monthly output dynamics weakened (Figure 3.a)

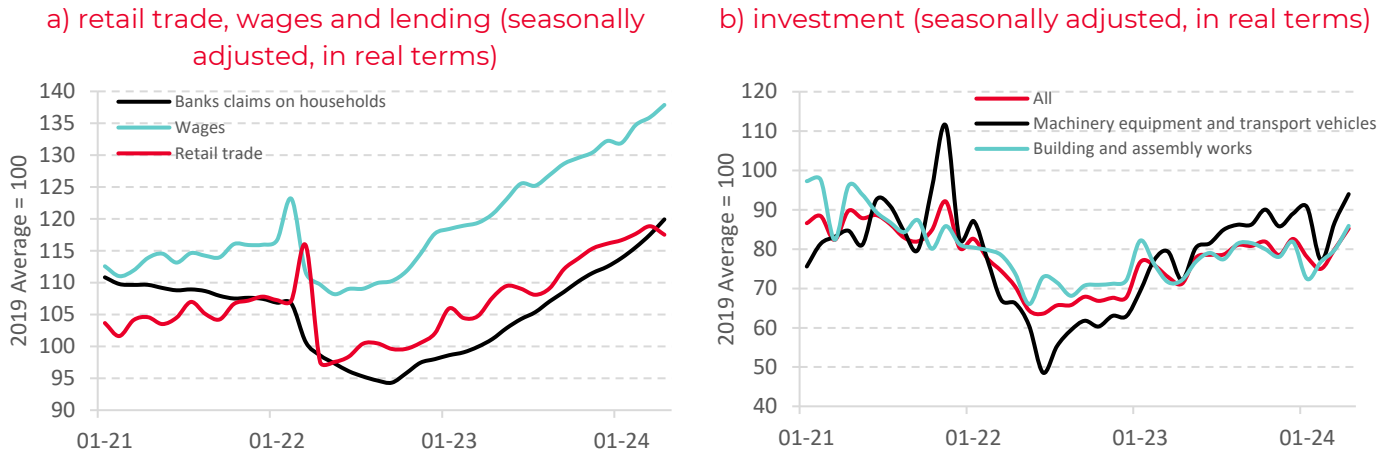
Industrial production (in real terms, seasonally adjusted) fell by  $\approx 0.5\%$  in April versus March following its growth by  $\approx 2\%$  in the previous month (Figure 3.a). Regional dynamics signal an increase in the potash fertilizer output in March-April following a likely drawdown earlier this year, as well as strong dynamics in the food industry and, possibly, in the car making industry, and in the output of construction materials. Oil refining most likely decreased slightly in April, and production in the engineering sectors associated with the military-industrial complex remained close to its March levels. Inventories shrunk slightly in April versus output (Figure 3.b), which indicated continued demand for manufactured products on the domestic and foreign markets, primarily in Russia.

In general, industrial output remained high in April despite its weakening dynamics. Production volume exceeded the 2021 volume by more than 6% amid maximum production capacity utilization, strong demand in Russia and continued availability of credit, although the [monetary stimulus](#) generated by interest rates narrowed noticeably in Q4-2023 — Q1-2024.

### The volume of wholesale and retail trade decreased in April, but at the same time, the consumption of services by households could increase

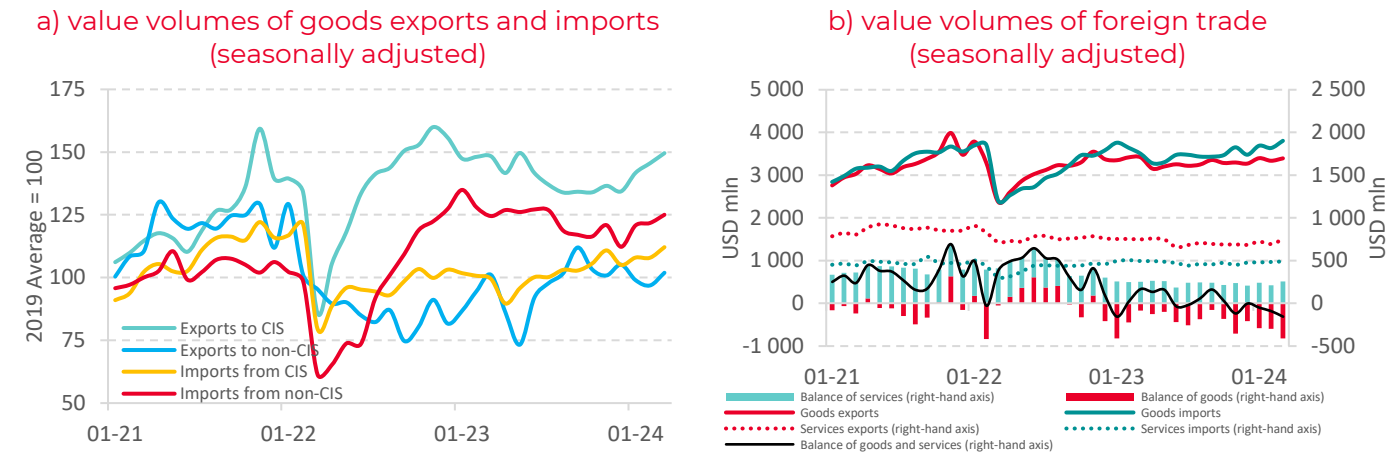
Retail turnover decreased by  $\approx 1\%$  (seasonally adjusted) in April versus March, but it remained well above its 2021 levels (Figure 4.a). This decline was likely adjustable following a strong growth in previous months. In addition, considering the greatly increased turnover of catering and other services as part of GDP (except for transportation, ICT and trade), households increased their consumption of paid services in April. In general, consumer demand remains overheated and continues to be supported by rapid growth in wages in the context of a shortage of workers and high rates of retail lending against the backdrop of preserved preferential programs and affordable interest rates on market loans to individuals.

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.

Figure 5. Dynamics of foreign trade indicators



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

**Inflation remained low in April: annual inflation rate was 5.63% YoY following 5.55% YoY in March, and annualized monthly price growth (seasonally adjusted) remained below 5% MoM (Figure 6.a)**

Inflation slowdown was observed in both core and non-core inflation components in April (Figure 6.b). In the latter case, it was influenced by a decrease in the volatile cost of fruits and vegetables (seasonally adjusted) and the weak dynamics of regulated prices and tariffs. Non-core inflation was supported by rising prices for tobacco and alcohol products.

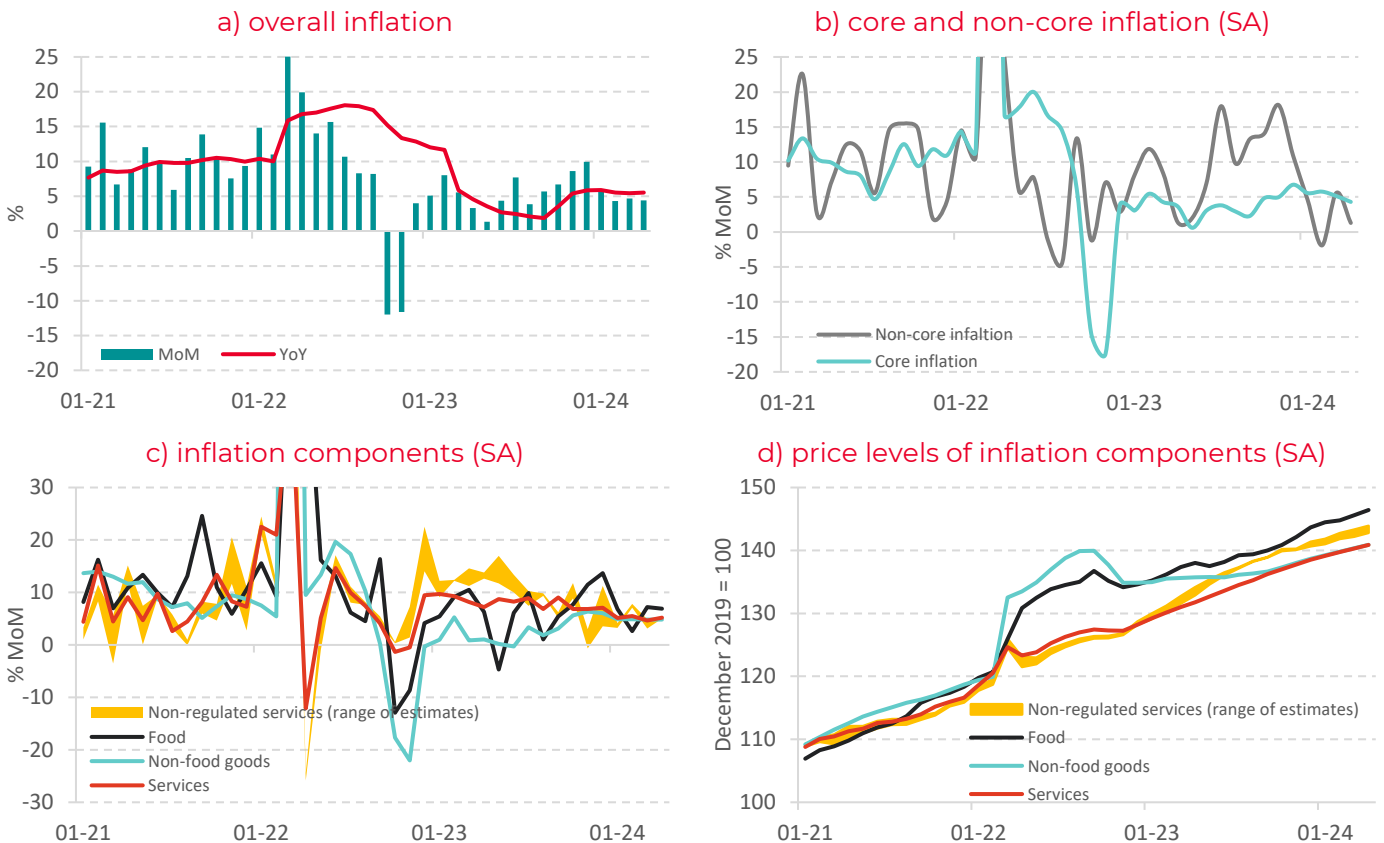
Annualized core inflation weakened below 5% MoM in April. Blanket price controls continue to suppress the transfer of pro-inflationary factors to prices. This is clearly manifested in the persistently low increase in prices for non-food products: annualized inflation of non-foods has remained at 4.9% MoM for four months in a row (Figure 6.c).

Inflation in unregulated services has also weakened this year. However, this is largely due to weak price dynamics of international rail transportations and the cost of air travel decreasing for eight months in a row, which may be related to higher competition from Russian airlines penetrating the Belarusian market. The remaining categories of unregulated services continued their price rise at an average rate of about 7% MoM, and in some cases it was significantly higher than 10% MoM (cultural services, hospitality (hotels and health resorts), unregulated utilities, training courses, etc.) due to cost pressures on labor and a strong consumer demand.

**Annual inflation will increase to 5.8–6.1% YoY in May**

Growth of the annual indicator will be associated with the May 2023 price declines exiting the calculation of the annual indicator. Monthly price gains will remain suppressed by price controls. At the same time, there are emerging risks of pressure on the prices of fruits and, possibly, other food products in Belarus and Russia in 2024 due to unstable weather conditions in the first half of May. In addition, an increase in fuel prices on the domestic market will have a slight pro-inflationary effect in the coming months: this will directly affect non-core inflation and indirectly affect the prices of other goods and services.

Figure 6. 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. The dynamics of seasonally adjusted prices and inflation of unregulated services are presented as a range because they can be assessed through various approaches.

## **The Belarusian economy is overheated, but the scale of this overheating, considering emerging statistics, was less than estimated previously**

In April, GDP volume was  $\approx 4\%$  higher than the average monthly volume in 2021. The labor market has been operating in the context of a significant shortage of workers: the ratio of unemployed to vacancies (seasonally adjusted) dropped to a new low of about 1.1 unemployed per vacancy in Q1-2024. Labor costs have been growing at an extremely high rate: real wages are almost 20% higher than the 2021 monthly average. Household consumption of goods and services could exceed its 2021 values by more than 16% in Q1-2024, and capacity utilization in the industrial sector is record-breaking since 2013. Foreign trade in goods and services in Q1-2024 became deficit for the first time since 2019: it was about 1.7% (seasonally adjusted) of GDP (Figure 5.b). Combined with increased inflation in the segment of unregulated services, all **this points to overheating of the Belarusian economy and overheating increase in Q2-2024**. At the same time, the fact that the pressure on the foreign exchange market is restrained and the economy continues to grow noticeably faster this year than the rate of the previous decade against the backdrop of non-strengthening of directed lending and albeit still stimulating market monetary conditions, but to a lesser extent versus 2023, gives reason to believe that **the overheating of the economy in 2023 and in Q1-2024 was less than previously estimated, and the level of equilibrium GDP was higher**.

## **GDP growth in recent months may be based on increased business expectations about the sustainability of demand for its products and services**

It is likely that the structural changes in the economies of Russia and Belarus “pushing” the military-industrial complex and import-substituting production to the fore have become increasingly viewed by businesses as long-term and sustainable. This may result in greater stability in demand for manufactured products and the desire to satisfy it in the future. This development of events is a serious challenge for Belarusian businesses. To survive in an environment of increasing competition from Russia, China and a number of other countries, full utilization of existing production capacities may be insufficient. Investments in expanding production capacity and increasing labor productivity become vital. This may help increase Belarus's potential GDP and ensure higher economic growth in 2024 and possibly in 2025 than previously expected, provided there are no logistics disruptions and other force majeure. To support this process, the authorities should ease pressure on businesses, gradually eliminate price controls and get back to predictable monetary and macroeconomic policies in general. However, such growth, even if associated with higher rates of potential GDP in the short term, will not be sustainable in the long run and, at best, will return to the range of 1–2% per year. Under sanctions, the technological gap will expand between Belarus and Western nations: Belarusian producers can remain competitive only in the “greenhouse” conditions of the domestic market, the markets of the EAEU countries and possibly a number of other less developed economies. At the same time, it is important to understand that the underlying determinants of economic growth — institutions and values — have not accompanied its high rates since 2020, and, on the contrary, they have undermined the country's long-term economic growth potential.