Belarus Economy Monitor:
trends, attitudes, and expectations

Express Analysis
Economic activity and inflation

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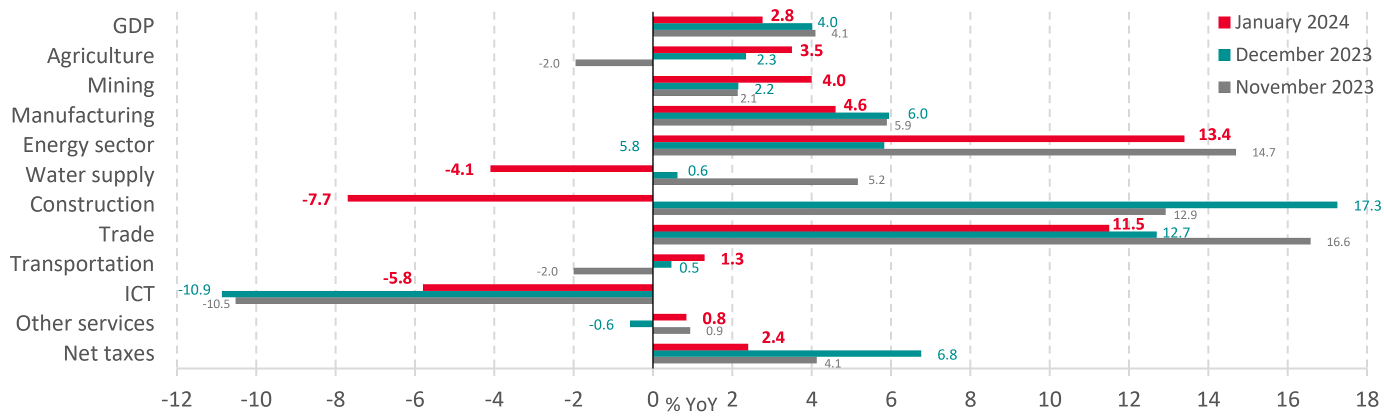
Economic activity in Belarus continued to weaken

GDP grew by 2.8% (YoY) in January 2024 following a ≈4% growth (YoY) in December 2023. Weakening dynamics in the manufacturing sector and a drop in the construction sector led to a slowdown in annual output growth (Figure 1). In January 2024, the GDP volume (seasonally adjusted) decreased by ≈0.1–0.2% compared to December 2023. The output decline has been observed for the third month in a row. This increasingly signals that the ceiling of extensive growth has been reached, and the effectiveness of monetary, budgetary and quasi-fiscal stimuli is getting less effective in the context of economic overheating where output growth is limited by supply-side factors. Stagnation dynamics are likely to continue (with possible volatility in certain periods) in the coming months, which will correspond to the accumulated GDP growth rate of about 2–3% (YoY) with a gradual pullback from the upper limit of this range to the lower one.

The GDP volume continues to exceed the balanced level, especially in terms of consumer demand. Combined with rapidly rising labor costs, this leads to maintaining inflationary pressures. Nonetheless, the government has further strengthened price control rigidity since the beginning of 2024; this slowed inflation in January 2024, and this will further restrain inflation at the cost of an increasingly negative impact on the financial standing of organizations.

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



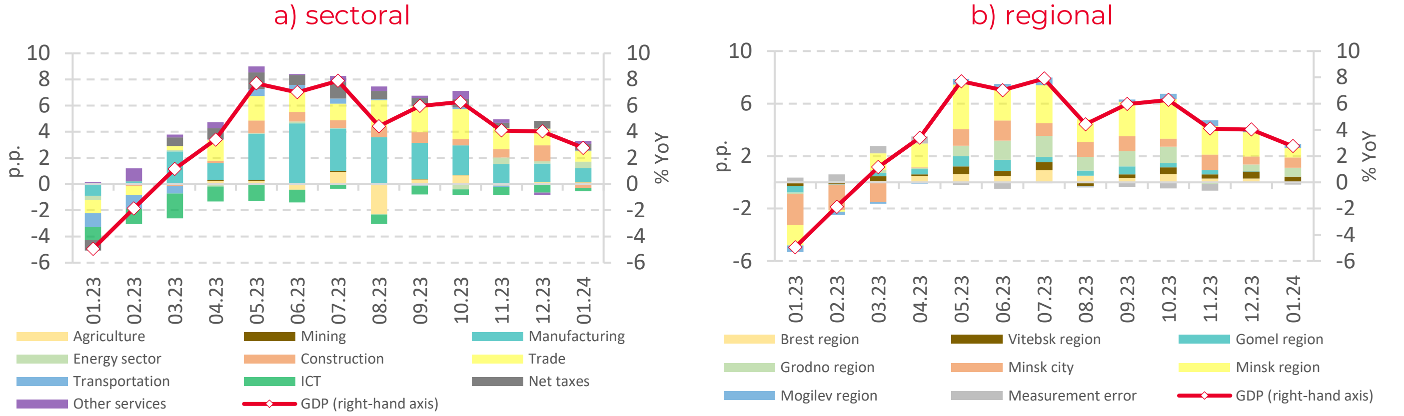
Note: The indicator dynamics update once new data are published.

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

Value added growth in the manufacturing industry slowed from ≈6% (YoY) in December 2023 to 4.6% (YoY) in January 2024 (Figure 1)**, and its contribution to annual GDP growth decreased from ≈1.4 to ≈1.1 p.p. accordingly** (Figure 2.a)

Manufacturing output (in real terms, seasonally adjusted) increased by about 1% in January 2024 compared to December 2023, but remained below its peak values in September-October 2023 (Figure 3.a). Regional dynamics indicates a possible increase in the production of petroleum products and/or metallurgy products at the beginning of 2024, while the machine-building and food sectors, as well as the potash fertilizer production sector, stagnated in the context of reaching their production and infrastructure limits. **Accumulating stockpiles and growing volumes of inventories versus output volumes accompanied the increase in industrial production in January** (Figure 3.b). Inventories have not been decreasing since Q4-2023, which may indirectly indicate difficulties with sales faced by industrial enterprises, including due to higher competition in the Russian market. The latter, among other things, is signaled by the stagnation of Belarusian exports of goods that continued in late 2023 (Figure 5.a). As a result, the profitability of sales decreased by more than half (down to 4.4%) in the industrial sector in December 2023 compared to 2022; in general, enterprises and organizations had a net loss of Br1.3 billion in December 2023.

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 water supply.

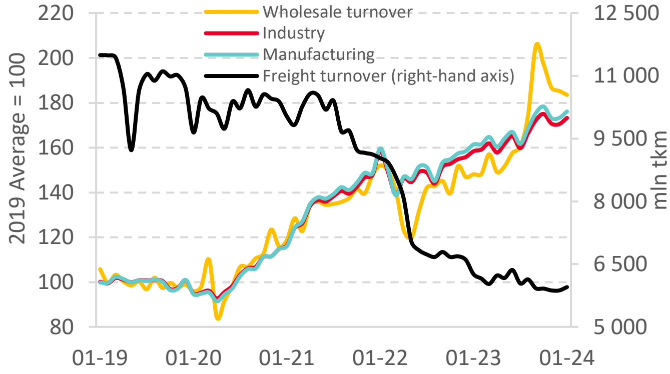
Value added reduction in the construction sector by 7.7% (YoY) in January 2024 following its increase by ≈17.3% (YoY) in December 2023 was the main reason for the annual GDP growth slowdown (Figure 2.a)

The volume of civil works (seasonally adjusted) dropped sharply at the beginning of 2024 following a noticeable growth in December 2023 (Figure 4.b). This volatility may be explained by an attempt to stay as close as possible to planned investment targets last year amid a depressed business climate. In view of this fact, some rebound or stagnation in the construction sector cannot be ruled out in February-March 2024.

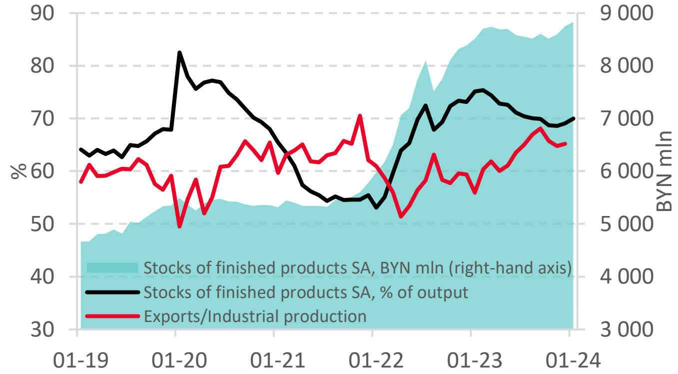
Capital investment in machinery, equipment and vehicles stagnated in January 2024 (Figure 4.b). In general, the investment dynamics has indicated a weakening of investment demand since the autumn of 2023 in the context where output growth has hit its ceiling, competition from foreign businesses in foreign and domestic markets has increased, and “adroit” state regulation of prices in the domestic market and pressure on entrepreneurs has suppressed incentives to investment and quality innovations.

Figure 3. Dynamics of industrial output, transport freight turnover and wholesale trade

a) nominal outputs of industries (SA) and wholesale trade (SA), freight turnover (SA)



b) industrial stockpiles



Note: SA is a seasonally adjusted indicator. The dynamics updates once new data are published.

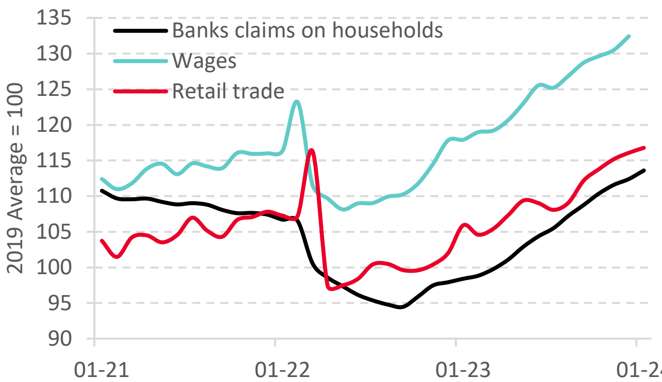
The transport and ICT sectors remained stagnant at the beginning of 2024

Freight turnover (seasonally adjusted) increased by ca. 1% in January 2024 compared to December 2023; however, it was still near its minimum values — minus ≈39% compared to 2021 — amid its large-scale fall in previous years (Figure 3.a).

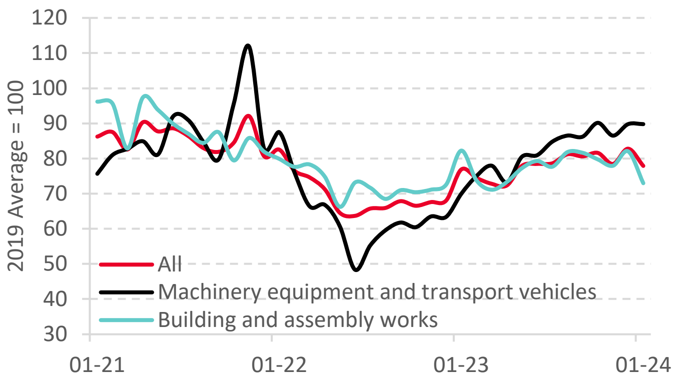
Value added in the ICT sector decreased by ≈5.8% (YoY) in January 2024, thus subtracting ≈0.3 percentage points from annual GDP growth (Figure 2.a). The decline rate has decreased in the sector (Figure 1); however, this predominantly reflects benchmarking with a lower baseline because the ICT sector has been contracting for 7 quarters in a row since Q1-2022. Nominal value added in the ICT sector has remained close to the levels of previous months (seasonally adjusted), thus indicating stagnation.

Figure 4. Retail trade and investment dynamics

a) retail trade, salaries and lending (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 December 2023) has been calculated by deflating the nominal salary 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.

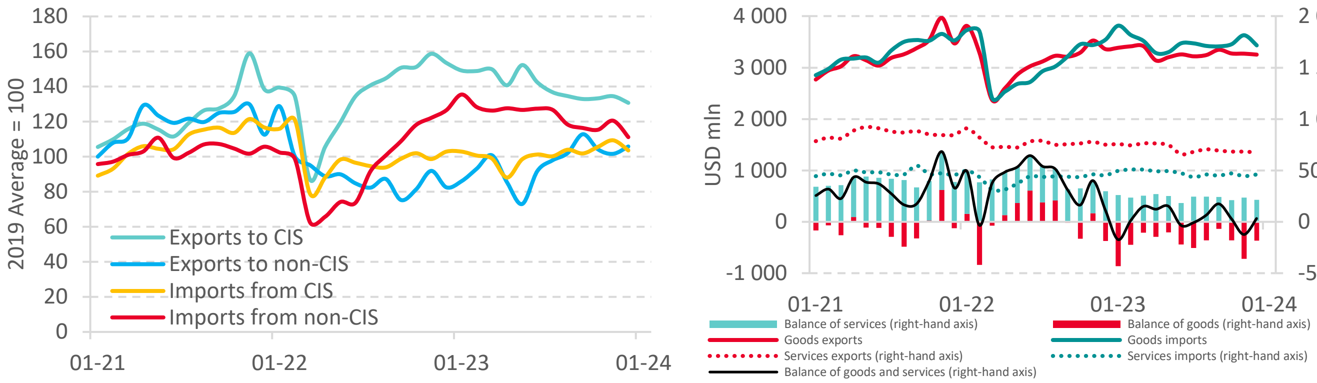
Consumer demand remained high at the beginning of 2024; however, its dynamics has been weakening gradually

Retail turnover (seasonally adjusted) continued to grow in January 2024, but at a slower pace compared to previous months (Figure 4.a). At the same time, the volume of goods consumption remained high: it was approximately 11% higher than the average monthly volume in 2021. In 2024, goods imports consistently exceeded goods exports mostly because of the strong consumer activity (Figure 4.b).

Lending and wage growth continued supporting households' demand for goods. Retail lending grew rapidly at the beginning of the year, thus indicating continued loose monetary conditions (Figure 4.a). The measures taken by the National Bank at the end of 2023 to narrow monetary incentives — all other things being equal — were not enough for a sustainable return of consumer demand to its balanced level after overheating. Salaries continued to grow intensively amid lack of staff at the end of 2023 (Figure 4.a), which not only supported demand, but also increased price pressure due to rising labor costs.

Figure 5. Dynamics of foreign trade indicators

a) value volumes of goods exports and imports (seasonally adjusted) b) value volumes of foreign trade (seasonally adjusted)



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

Annual inflation was 5.9% (YoY) in January; however, the intensity of inflation processes decreased at the beginning of 2024

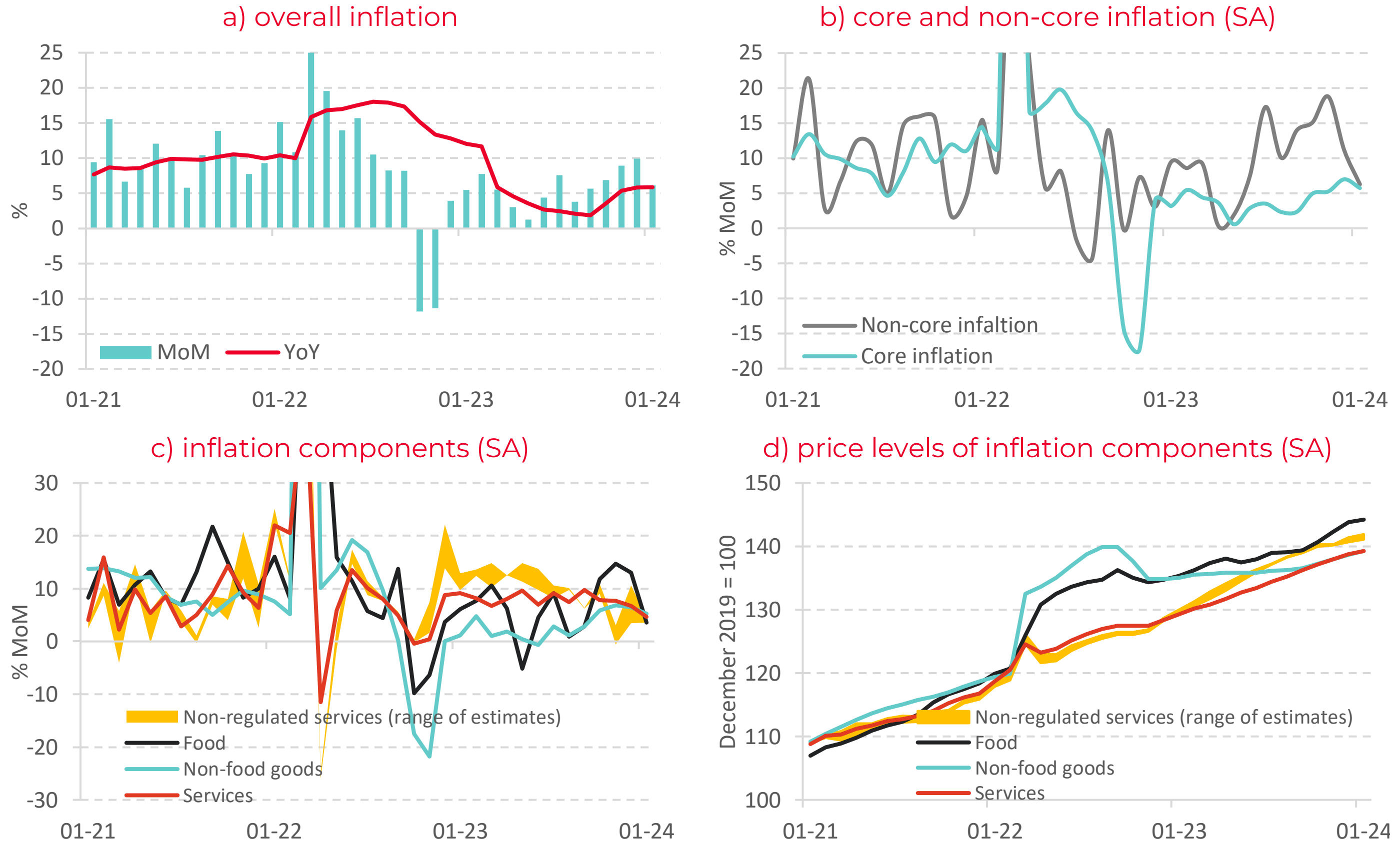
Annualized monthly consumer price growth (seasonally adjusted) fell from nearly 10% (MoM) in December 2023 to about 6% (MoM) in January 2024 (Figure 6.a). Non-core inflation has slowed significantly (Figure 6.b), which is mainly explained by lower prices of fruits and vegetables in January 2024 (seasonally adjusted) following their rapid growth at the end of 2023. Core inflation also slowed from ≈7% (MoM) in December 2023 to ≈5.7% (MoM) in January 2024.

Inflation lowered across all basket components in January 2024 despite higher costs amid excess demand in the economy and an overheated labor market

The monthly increase in seasonally adjusted prices slowed down for 47 out of 97 consolidated items in the consumer basket (it remained at 0% for another four consolidated items) in January 2024. As a result, an inflation slowdown was noted in all groups of goods and services at the beginning of 2024 (Figure 6.c). **Price growth slowdown for almost half of the basket following a sustained inflation growth since September 2023 may indicate the impact of the price control system adjusted at the beginning of 2024.**

In February, annual inflation is expected to be in the range of 5.7–6% (YoY). The government will strive to maximize administrative levers to prevent consumer price growth from accelerating. The National Bank is likely to take further actions towards narrowing monetary incentives for businesses and households. It should be noted that the divergence in prices in various components of the consumer basket remained significant in January 2024: the prices of food products and unregulated services were noticeably higher than the price of non-foods (Figure 6.d). Prices level off over long periods, implying either accelerated inflation in non-foods and regulated services in the future or a sustained inflation slowdown in food products and non-regulated services. The first option looks more likely due to the accumulated inflationary overhang caused by the artificial containment of rising commodity prices by non-market instruments, which has been in effect since October 2022.

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.