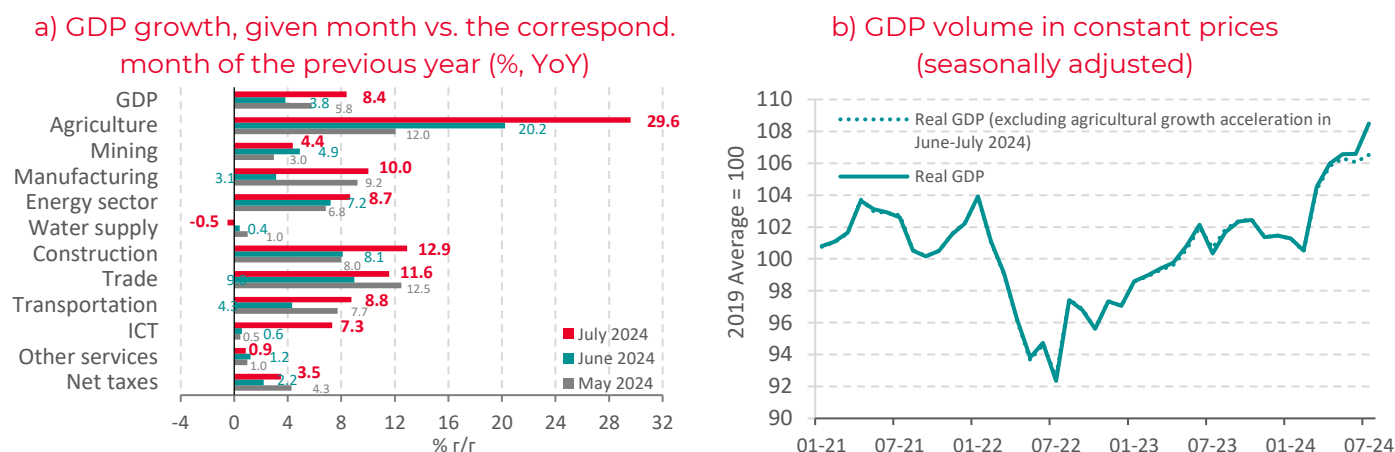


Belarus' GDP growth accelerated in July due to climate factors, but an adjustment decline will occur in August

GDP grew by 5.5% YoY in January – July 2024, and it grew by ≈8.4% YoY in July only (Figure 1.a). Fluctuations in the annual output growth in June-July were due to the different number of working days in the first summer months of the current and last year, as well as the unevenness of the harvest. Seasonally adjusted GDP grew by approximately 1.6-1.8% in July versus June. The acceleration is explained by the faster pace of grain harvesting compared to 2023. Excluding the leftward shift in harvesting in June-July, seasonally adjusted GDP remained near its May 2024 peak (Figure 1.b).

The economy is showing signs of entering a plateau. It is very likely that it is near the peak of the business cycle, which will be followed by a phase of weakening economic dynamics. If there are no heavy external shocks, the adjustment of the overheated economy to a balanced state will not be rapid, since monetary policy has not become restrictive, and budget expenditures have been growing at a high rate. If producers of goods and services are slow to adjust to higher demand, inflationary pressures will increase in the medium term, and the likelihood of a “hard landing” in the economy will increase.

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



Note: The estimates update once the data are verified. Monthly GDP data are estimates, and they should be treated with caution.

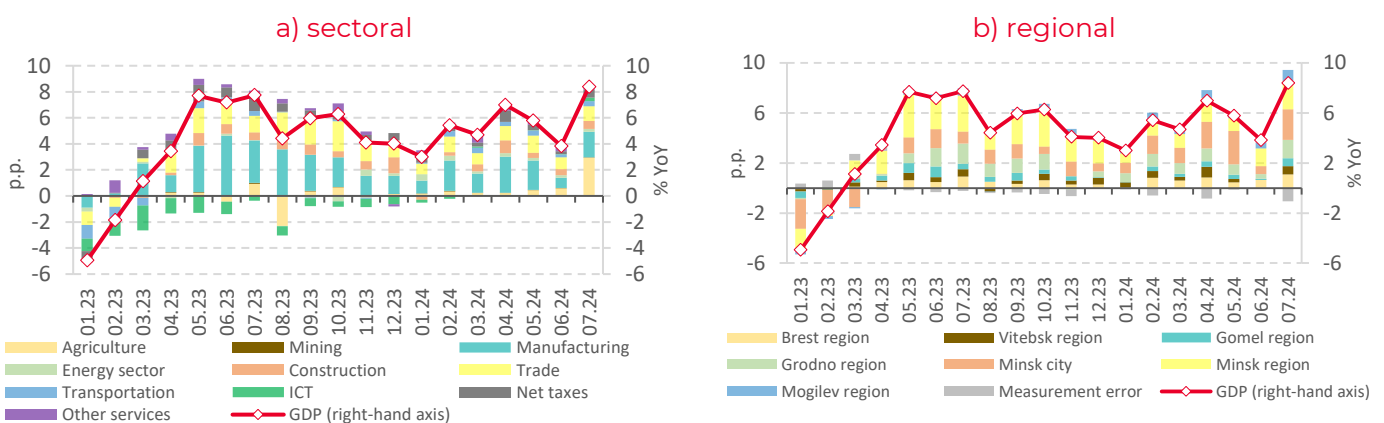
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

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The agricultural sector strongly supported GDP in July against the backdrop of the accelerated pace of the harvesting campaign this year: its contribution to annual GDP growth was ≈ 2.9 p.p. (Figure 2.a)

Agricultural value added grew by $\approx 29.6\%$ YoY in July (Figure 1.a). Due to weather conditions, 2.3 times more grain was threshed and 40% more rapeseed was harvested by August 1, 2024 than by August 1, 2023. At the same time, after harvesting more than 90% of the sown area, the grain yield (excluding rapeseed) in 2024 is only a few percent higher than in 2023. Considering that the sown areas have expanded this year, the grain harvest could be around 6.7–6.8 million tons this year: this is an average indicator, which is only 8–10% higher than the low harvest of 6.2 million tons in 2023 (Figure 3.a). In this regard, since the harvest campaign is almost completed by the end of every August, a significant downward adjustment in the agricultural value added will be observed already in August.

Figure 2. Structure of GDP growth in Belarus (% YoY)

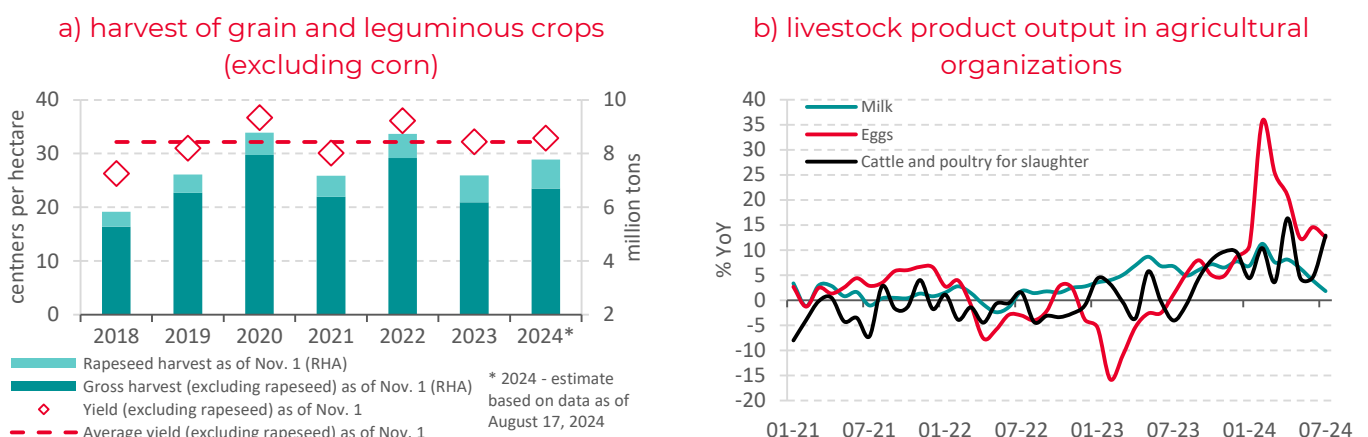


Note: The estimates update once the data are verified. The energy sector includes the water supply subsector.

The information and communications sector added ≈ 0.3 p.p. to the annual GDP growth in July: this was its maximum contribution since May 2022 (Figure 2.a)

Value added of the ICT sector grew by $\approx 7.3\%$ YoY in July (Figure 1.a). Part of the acceleration in the annual indicator from $\approx 0.6\%$ YoY in June is explained by the greater number of working days in July 2024 compared to July 2023. However, the ICT sector showed significant growth (seasonally adjusted) by June 2024. Thus, the ICT sector continued to recover from its deep recession of 2022–2023. This is facilitated by the slowdown in emigration processes, the refocusing of businesses to the markets of Russia, the EAEU and other CIS countries, as well as the entry of Russian market players.

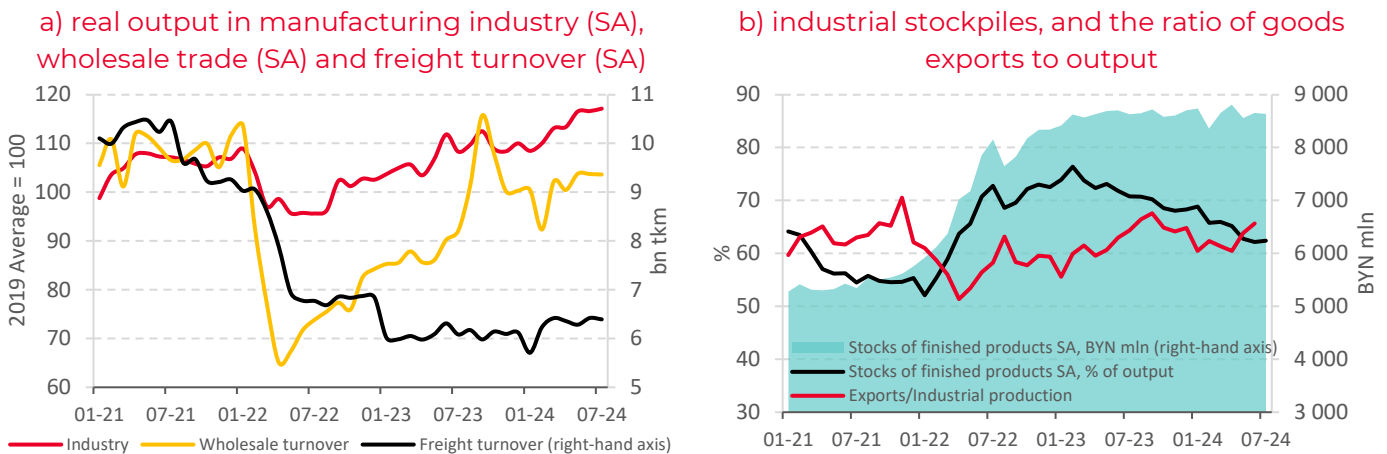
Figure 3. Agricultural indicators



The industrial sector remained at a “plateau” in July (Figure 4.a), and the acceleration of the annual growth of its value added from ≈3.5% YoY in June to ≈9.4% YoY in July was associated with the volatility in June-July 2023 and with the influence of the calendar factor: there were two working days less in June 2024 than in June 2023, and there were two working days more in July 2024 than in July 2023

Regional dynamics indicate a strong output decline in the Gomel region, which may signal problems with production at the Mozyr Oil Refinery. In Minsk, Grodno and Mogilev regions, a slight upward production adjustment was noted in July after a decline in June. This may reflect output fluctuations in mechanical engineering, food and chemical industries. Overall, **industrial production in June-July fluctuates around its peak volumes reached in May, without showing any significant growth (Figure 4.a)**. In this context, freight turnover of the transport sector and wholesale trade turnover also had restrained dynamics (Figure 4.a). The expected weakening of demand in Russia, signs of which could be seen in the decline in the Bank of Russia’s Business Climate Index in July-August, increased competition in the Russian market, the reached limit of effective capacity utilization and significant overheating of domestic demand create risks for the further development of industrial dynamics.

Figure 4. Dynamics of industrial output, wholesale trade and transport freight turnover



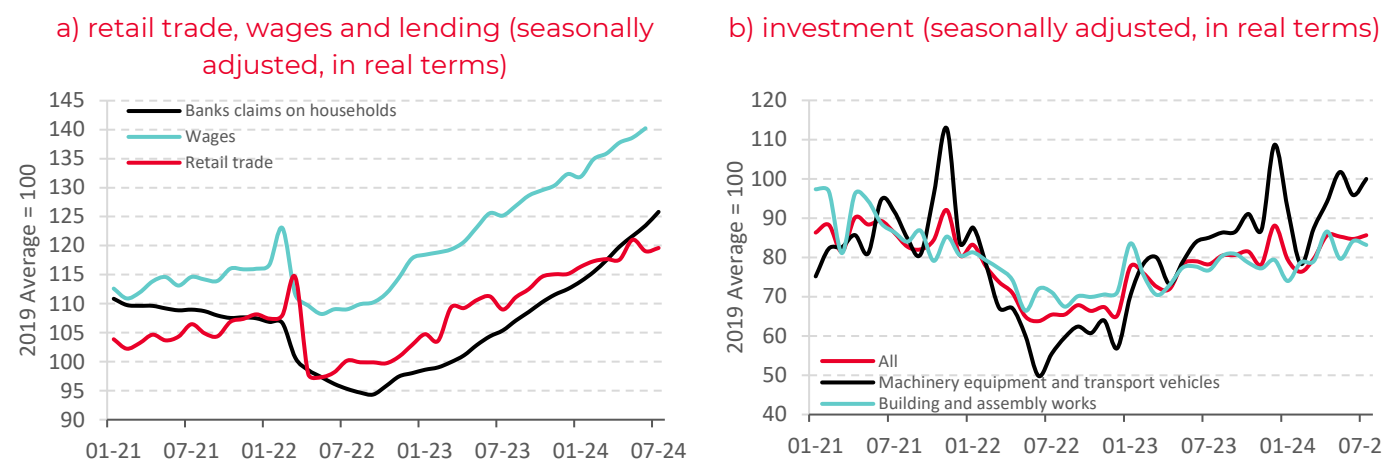
Note: SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal volume by the wholesale trade price index. The real industrial output volume has been calculated based on the Belstat’s Industrial Output Index in 2015 prices. The dynamics updates once new data are published.

Investment demand remained subdued in July: capital investment has remained close to its 2021 average monthly level since April (Figure 5.b)

Value added of the construction sector grew by ≈12.9% YoY in July. The acceleration of annual growth from ≈8.1% YoY in June is associated with a larger number of working days in July 2024 compared to July 2023. Seasonally adjusted construction sector output in July remained close to its level in June, well short of pre-war levels (Figure 5.b). Shortage of workers limits the possibility of expanding civil works even amid affordable lending rates and directed lending.

Investments in machinery and equipment (seasonally adjusted) in July almost recovered to the local peak level registered in May following a decline in June, thus compensating weak construction dynamics (Figure 5.b). Overall, the volume of investment in the active share of fixed assets has been fluctuating around the 2019 level for the past three months (Figure 5.b). Given the shortage of production capacity, this seems insufficient to ensure high rates of output growth in the medium term.

Figure 5. Retail trade and investment dynamics



Note: Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. 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. The indicator dynamics updates once new data are published.

Consumer demand remained near its record levels in July

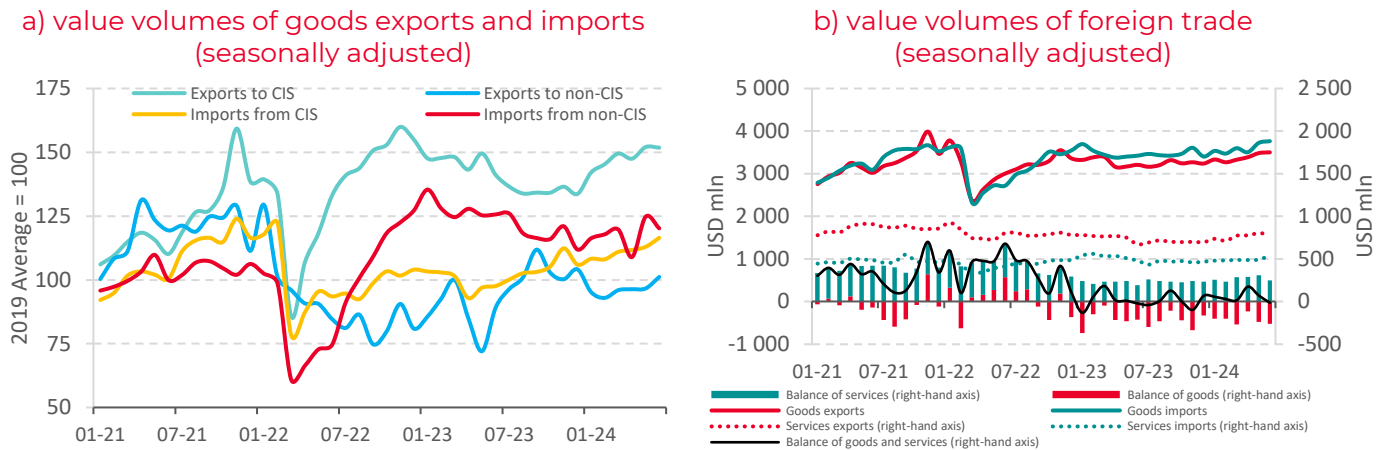
Retail turnover (seasonally adjusted) grew by ca. 0.5% in July versus June. Goods consumption remained near record levels (Figure 5.a). Catering also grew by 2.8% per month on average (seasonally adjusted) in June-July. Amid high rates of price increases for unregulated services, this indicates strong household demand for services, too.

Despite overheated demand for goods, the dynamics of retail trade began to lag behind the growth of wages and retail loans (Figure 5.a). This is happening against the backdrop of demand for real estate and prices for it reaching their multi-year highs. At the same time, the issuance of housing loans has grown significantly (+68% YoY in the first half of 2024, and the volume of loans was equal to the volume of the loans issued in the whole 2021), and the population remains a net seller of foreign currency. In an environment where pent-up demand for goods is being met, people may be increasingly interested in buying real estate. The soft nature of interest rates and high growth in household incomes create conditions for satisfying this demand. At the same time, the volume of housing construction has been declining since 2022. For this reason, if demand for real estate is actively stimulated (including through preferential loans), the affordability of housing may decrease due to rising prices.

Belstat and the National Bank have revised their estimates of the state of foreign trade towards a reduction in the surplus in 2023 and a significant improvement in the balance in 2024

The deficit in foreign trade in goods and services was \$141.5 million in January-May 2024, not \$502.5 million as previously reported. The volume of exports increased by \$75 million due to an upward revision of exports of services by \$97.3 million. Imports decreased by \$286 million due to a downward revision of imports of goods (mainly from non-CIS countries) by \$248.1 million and due to a downward revision of imports of services by \$37.9 million. Foreign trade had a surplus of \$100.2 million (ca. 0.3% of GDP) in the first half of 2024 because of a seasonal decline in imports in June. The revision does not change the overall picture of trade. It is worse than in 2020–2022 due to the growth of imports in an environment of overheated domestic demand (Figure 6). Moreover, the highest net purchase of foreign currency by firms since 2010 in Q2-2024 points to a high probability of a downward adjustment of trade in the future.

Figure 6. Dynamics of foreign trade indicators



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

Inflation declined in July: over the year, prices rose by 5.5% (5.8% YoY in June), and over the month, prices rose by ca. 4.5% MoM in annualized terms (seasonally adjusted) (Figure 7.a)

The slowdown in price growth is mainly due to the weakening of non-core inflation, which fell from $\approx 12.1\%$ MoM in June to $\approx 7.6\%$ MoM in July (Figure 7.b). In this group of goods and services, a decrease in the growth of both regulated prices (from $\approx 7.3\%$ MoM in June to $\approx 5.3\%$ MoM in July) and the prices of fruits and vegetables (from ca. 50% MoM in June to $\approx 22\text{--}24\%$ MoM in July) was observed. The dynamics of regulated prices weakened due to halving of the rate of fuel price growth. Inflation in the fruit and vegetable segment has adjusted following a surge in June caused by challenged imports. However, the growth in prices for vegetables and fruits remained high (seasonal effect excluded). This may indicate continued challenges with imports and, possibly, the priority of exports over saturation of the domestic market.

Core inflation declined in July and remained extremely low given the current macroeconomic conditions: ca. 3.5% MoM (seasonally adjusted) (Figure 7.b)

Annualized seasonally adjusted non-food price growth remained below 4% MoM in a blanket price control environment (Figure 7.c). Inflation in the non-regulated services segment has slowed significantly: excluding highly volatile international rail and air transport, the annualized seasonally adjusted price growth is estimated at ca. 4% MoM in July following almost 10% price growth MoM in June (Figure 7.c). This sharp decline is almost entirely explained by the reduction in the price of medical services due to the Ministry of Health changing its approach to setting prices for medical services on July 1. If the growth in prices for medical services had remained at the June level, inflation in unregulated services (excluding rail and air transport) would have been about 9% MoM in July.

Important service items continued to rise in price at an accelerated pace due to cost pressures in an overheated economy with a deep labor shortage: market household and veterinary services (their prices grew by $\approx 9.5\%$ and 12% MoM, respectively), hospitality and tourism services (their prices grew by $\approx 45.5\%$ and 11% MoM, respectively), cultural, health resort and sports facility services (their prices grew by $\approx 8\%$, 16.6% and 11% MoM, respectively), and training courses (their prices grew by $\approx 9.5\%$ MoM). The inflationary overhang accumulated due to high growth in prices for unregulated services and weak price dynamics in the non-food segment (Figure 7.g).

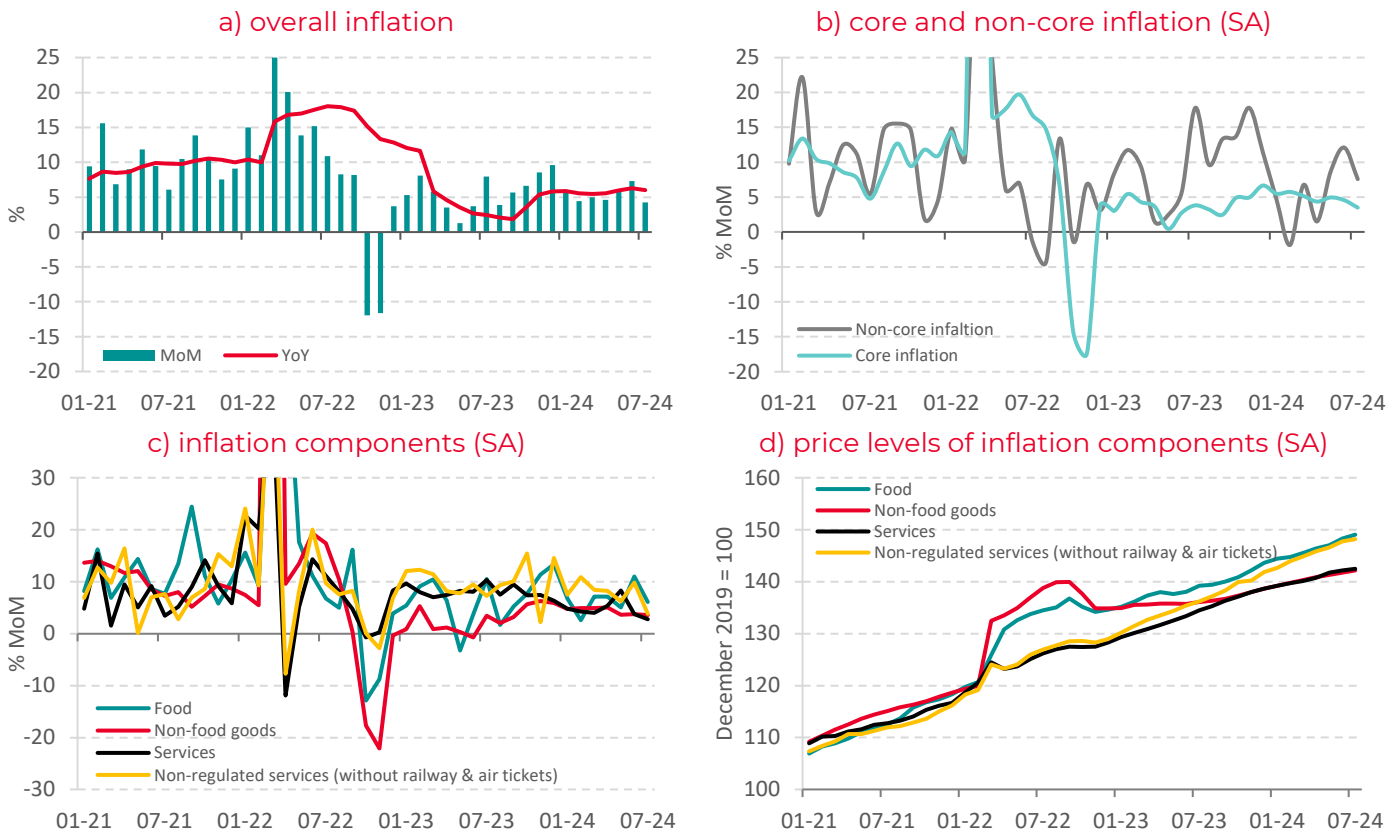
However, annual inflation in a price control environment will remain within 6% YoY in August, rather closer to the July inflation level of 5.5% YoY.

Economic authorities continued to respond extremely “sluggishly” to serious imbalances in the economy

Interest rates on Belarusian ruble market loans and term deposits increased by 0.2 p.p. and 1.2 p.p. in July, respectively, primarily due to the corporate segment. This was the banks’ response to the National Bank’s increased reserve requirements, the overnight loan rate, and the estimated values of standard risk. In real terms, rates have approached their neutral levels. Given the time lag between rate hikes and their effects on lending, some weakening of lending dynamics can be expected towards the end of this year. However, the neutral nature of interest rates is not enough to quickly “cool down” an overheated economy in an environment of high growth in household incomes and increased domestic demand.

The likely continuation of significant growth in budget expenditures in the second half of this year will also hinder the reduction of excess demand. According to available public data (data from the Ministry of Finance, the Eurasian Fund for Stabilization and Development, the Social Security Fund, and statements by officials), consolidated budget expenditures (including the Social Security Fund) could have increased by ≈8% YoY in real terms in the first half of 2024 after growing by 10.4% YoY in 2023. At the same time, the National Bank’s increase in purchases of government bonds on the secondary market (worth of Br1.2 billion in January–July 2024, including Br0.5 billion in July) in an environment of high growth in budget revenues indicates the authorities’ intention to continue significantly expand spending. This may, among other things, be due to the presidential election campaign.

Figure 7. 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.