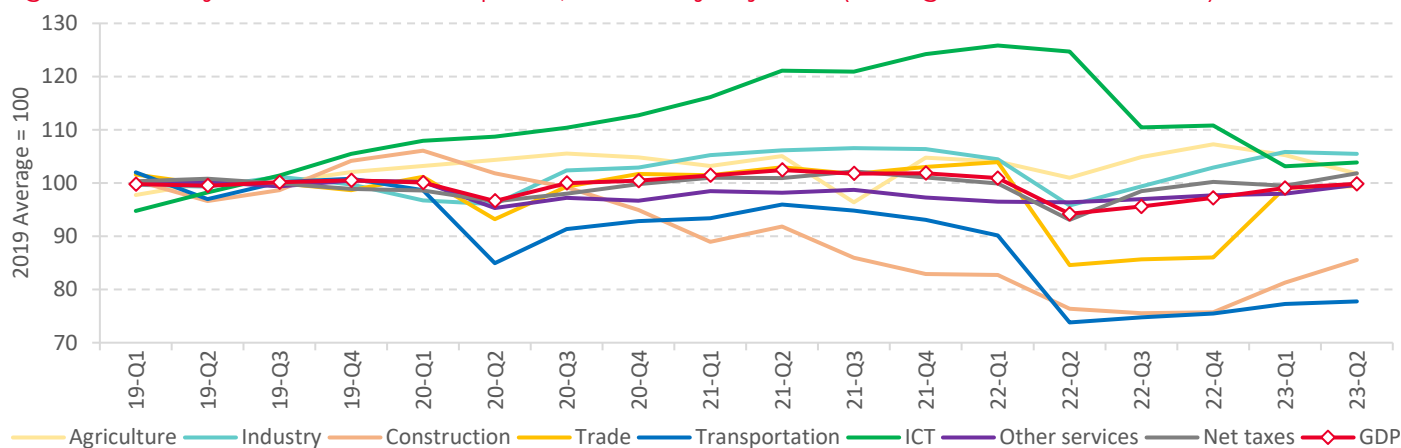


Belarusian GDP could exceed its equilibrium in Q2-2023

In June, the GDP of Belarus grew by $\approx 7.1\%$ (YoY) (Figure 2.a) and by 6.1% (YoY) in Q2-2023. In June 2023, GDP volume (seasonally adjusted) increased by $\approx 0.15\text{--}0.4\%$ compared to May 2023. On the demand side, output growth in June 2023 was driven by an increase in investment, which reflected in increasing volumes of construction work and manufacturing production. Consumer demand remained close to its May 2023 level, significantly exceeding the pre-war figures. In the coming months, GDP dynamics may be volatile due to fluctuations in agricultural output, and the cumulative growth rate since the beginning of the year may get close to 3% (YoY).

Based on the Q2-2023 performance, GDP volume exceeded its equilibrium level, i.e. the output gap moved into the positive zone (based on the Quarterly Projection Model – QPM). Economic activity was supported by loose monetary policy due to cheapening credit resources and, in general, due to their increased credit availability. As a result, despite inflation suppressed by administrative measures, the risks of accelerating price growth by the end of 2023 and in 2024 keep growing. Under the current conditions, the further output and inflation dynamics will largely depend on the National Bank and its monetary policy decisions.

Figure 1. GDP dynamics in constant prices, seasonally adjusted (average value of 2019 = 100)



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

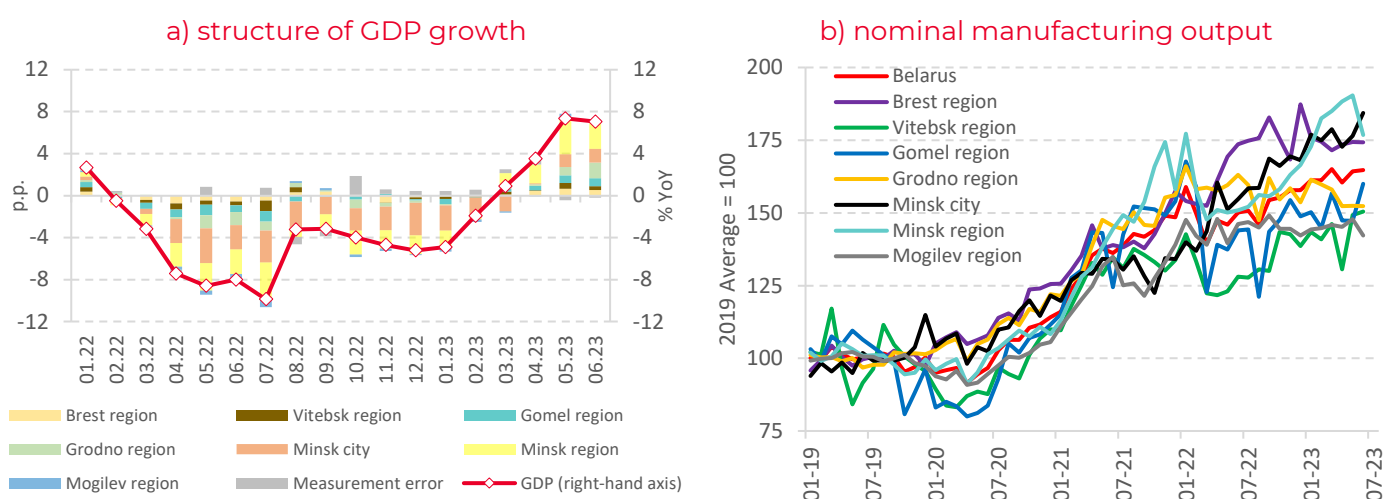
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

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Manufacturing output (seasonally adjusted) increased slightly in June 2023 compared to May 2023

The manufacturing output growth was provided by the city of Minsk and the Gomel region (Figure 2.b). In the latter case, there may be a recovery in oil refining after the April 2023 failure. Industrial growth in the city of Minsk may be concentrated in the machine-building sector and be associated with the increase in investment observed in recent months amid a stimulating monetary policy and, possibly, non-market measures. There may also be production of the orders from the military-industrial complex, the output of which — in the current context — is less subject to the negative impact of the Belarusian ruble exchange rate, which strongly strengthened against the Russian ruble in Q2-2023. At the same time, if the 100 RUB/BYN exchange rate remains in the range of 3.3–3.5 in the summer months, the machine-building sector as a whole may begin to experience challenges with its sales on the Russian market.

Figure 2. Regional structure of GDP growth in Belarus and manufacturing output



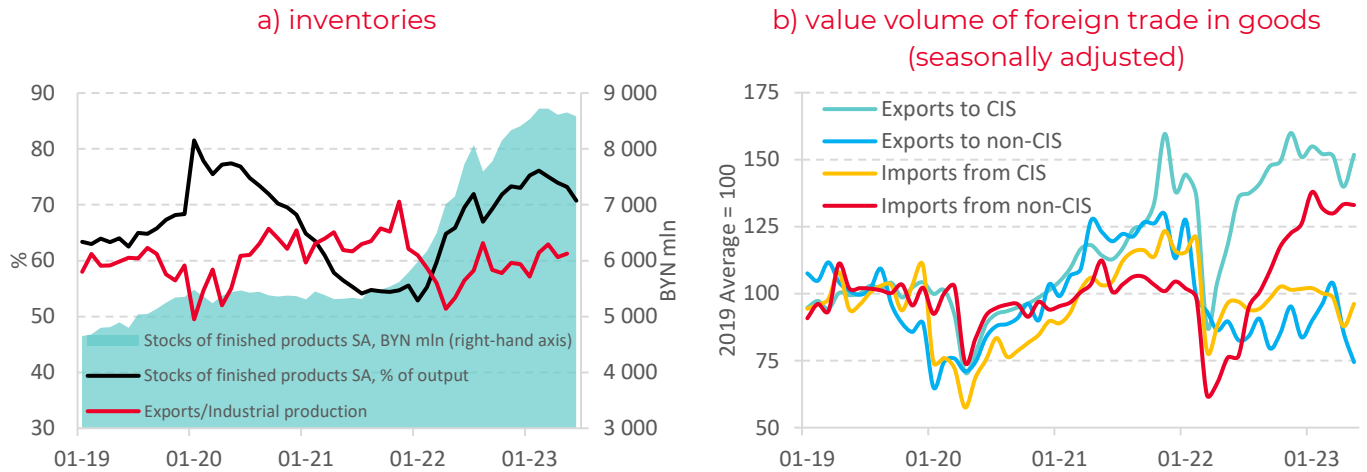
Note: Estimates of the GDP growth structure by sectors will be updated in the next release of the Express Analysis, since the updated Belstat data for January 2023 through to May 2023 were not available at the time of drafting this bulletin. The indicator dynamics updates once new data are published.

Manufacturing industries in the Brest and Grodno regions continued to stagnate in June 2023 (Figure 2.b), which could reflect stagnation in the food industry. The manufacturing industries' output in the Minsk region decreased in June 2023 (versus May 2023, seasonally adjusted) (Figure 2.b). As noted in the previous Express Analysis, potash fertilizer production may fluctuate around $\approx 70\%$ of its pre-crisis volumes. It also cannot be ruled out that the strengthening of the Belarusian ruble against the Russian ruble began to have a negative impact on the competitiveness and output of automotive enterprises. **Inventories decreased in June (seasonally adjusted), but remained high** (Figure 3.a).

Overall, manufacturing value added stagnated in Q2-2023 following its rapid recovery in Q3-2022 — Q1-2023 (Figure 1)

It is quite possible that under the circumstances, further output expansion will be accompanied by production efficiency loss. Shrinking employment also limits production capacity, and exchange rate support for competitiveness has dried up due to the strengthening of the Belarusian ruble against the Russian ruble.

Figure 3. Dynamics of inventories and foreign trade in goods



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

Construction maintained its high growth rates in June 2023, and, in general, it became one of the drivers of GDP growth in Q2-2023

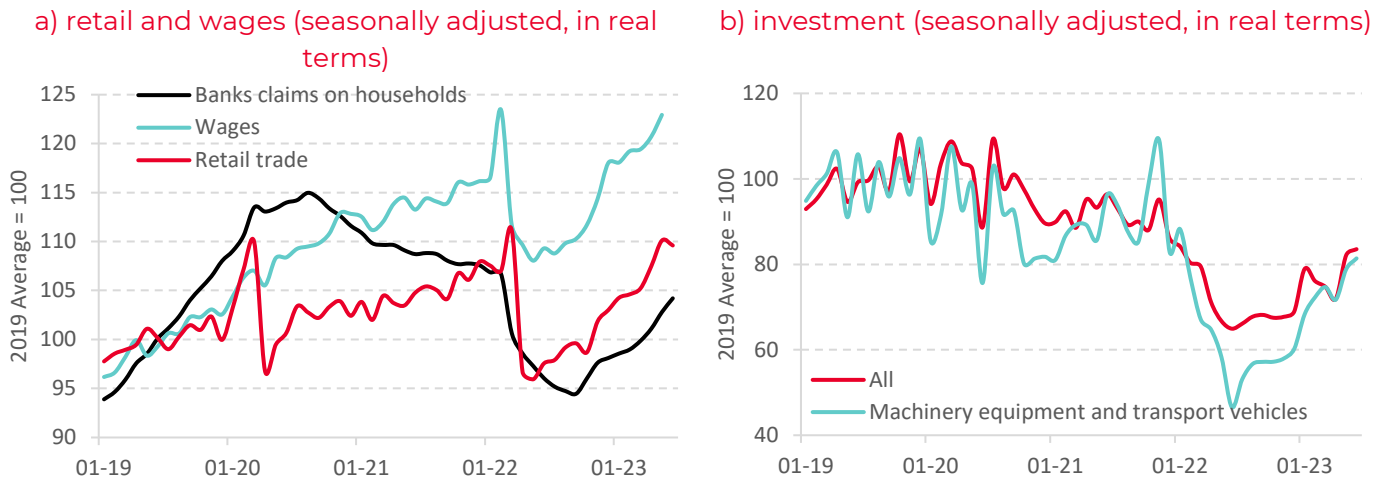
Investment in construction and installation works showed a noticeable increase by May 2023 (seasonally adjusted). Capital investment in equipment, machinery and vehicles also maintained its upward trend. As a result, investment in fixed assets as a whole continued to grow in June 2023 (Figure 4.b). Investment demand strengthened in the context of a loose monetary policy, which was reflected in cheaper loans and, in general, in an increase in their availability. It is also likely that in recent months there has been an intensification of non-market administrative pressure on state-owned enterprises in an attempt to achieve the planned target indicators of investment and GDP growth. In Q2-2023 in general, value added in the construction sector (seasonally adjusted) increased by a little more than 5% versus the previous quarter and provided ≈ 0.2 p.p. of the quarterly GDP growth.

Trade slowed down to some extent in June 2023, but retail sales remained high

Retail trade turnover in June 2023 remained close to the level of the previous month (seasonally adjusted), but significantly exceeded its pre-war volumes (Figure 4.a). Consumer demand continued to receive support from the increased availability of loans and increased household incomes. Wholesale turnover also rose slightly in June 2023 (seasonally adjusted) after a strong drawdown in April 2023. Such dynamics can be explained by the volatility of the petroleum products output in the context of repairs at oil refineries.

In general, according to the Q2-2023 performance, total value added in wholesale and retail trade remained close to the previous quarter levels (Figure 1). Based on the dynamics of monthly indicators, the retail segment could demonstrate a noticeable growth, while the wholesale segment could show adjustments due to stagnation in the production of potash fertilizers and due to oil refining reduction in the quarter in general. If monetary policy remains loose and if there are no major shocks, a rather high level of consumer demand may persist, which will be accompanied by a sustained positive output gap.

Figure 4. Retail trade and investment dynamics

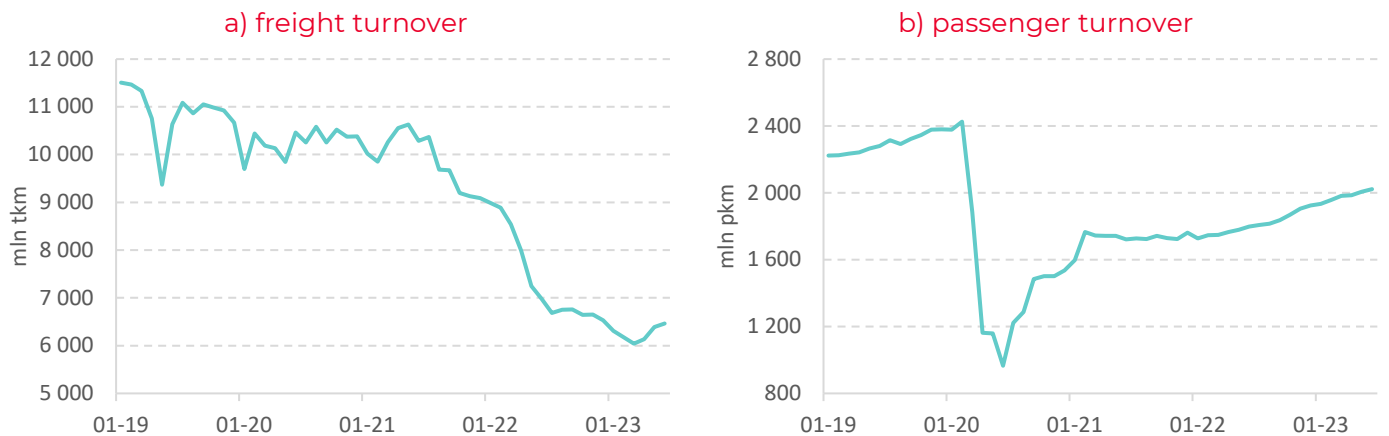


Note: The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage (see the Figure: through to May 2023) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators of real investment have been calculated by deflating the nominal investment by the Investment Goods Producer Price Index. Seasonal adjustment (individually for nominal indicators and price indices) was made through the X13 and TRAMO/SEATS procedures in the JDemetra+ application. The indicator dynamics updates once new data are published.

Transport sector freight turnover showed a weak recovery growth in June 2023 (Figure 5.a), but still fell short of its average monthly volume of 2019 by more than 40% and by almost 35% versus its average monthly volume of 2021 (seasonally adjusted)

Cargo transportations have been stagnating after the 2022 failure (Figure 1) in the context of reducing transit and incomplete recovery of potash exports. A more positive picture was observed in passenger transportations, where passenger traffic in June 2023 exceeded its average monthly level of 2021 by ~17% (seasonally adjusted; Figure 5.b). Despite the increasing complexity of tourism and sanctions restrictions, the passenger transportation segment is likely to get support from the increased demand of the population for services, fueled by loose monetary policy and higher wages. In general, **according to the Q2-2023 performance, other services (excluding information and communications, trade and transport) added more than 0.4 p.p. to the quarterly GDP growth** (seasonally adjusted; Figure 1).

Figure 5. Dynamics of transport industry indicators (seasonally adjusted)



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

The Information and Communications sector stagnated in Q2-2023 (Figure 1)

The sector lost over 17% of its value added since its peak level of Q1-2022 (seasonally adjusted) due to the relocation of businesses and professionals and due to the complication of cooperation between foreign companies and Belarusian businesses. In the coming quarters, stagnation or some recovery in the IT sector output is possible in the context of increased domestic demand, but it seems problematic to win back the incurred losses in the coming years.

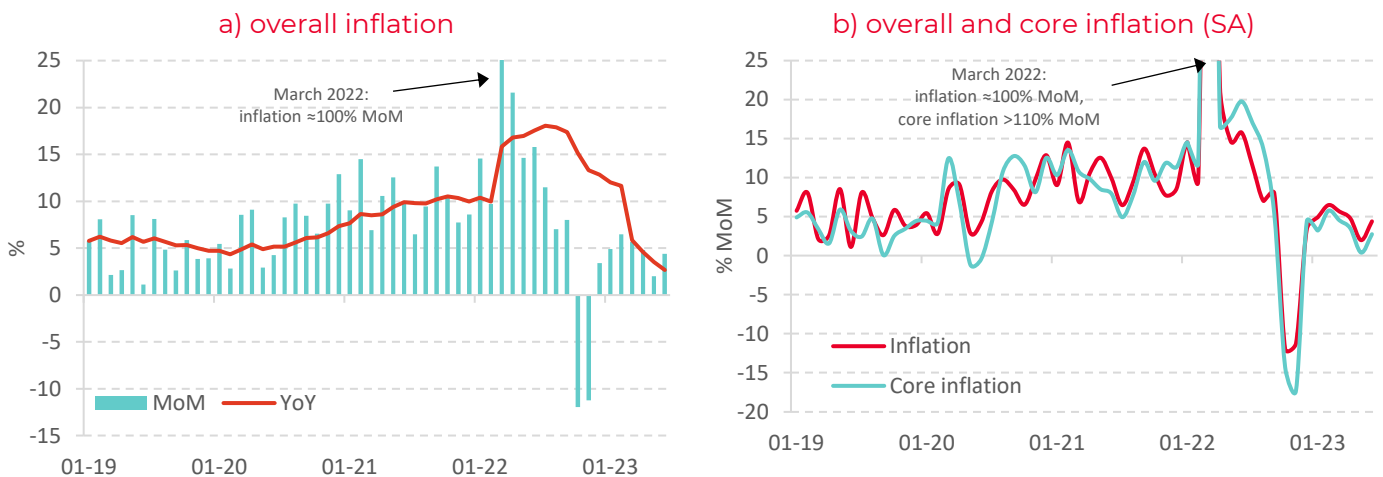
Agricultural output decreased by 6.1% (YoY) in June 2023, and the value added of the sector Q2-2023 fell to the level of Q1-2023, seasonally adjusted (Figure 1)

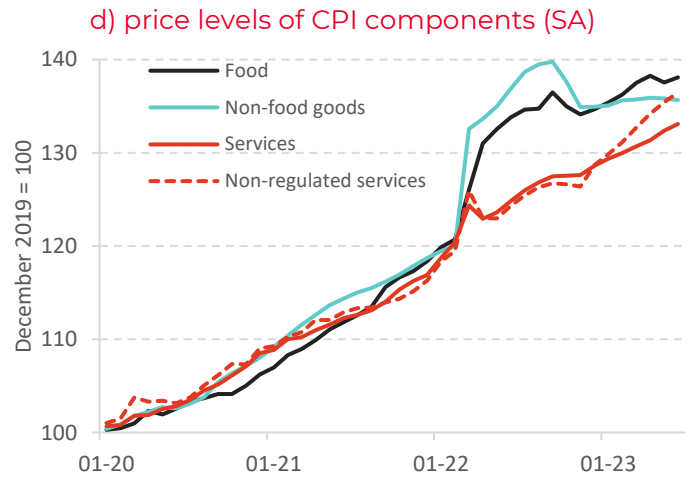
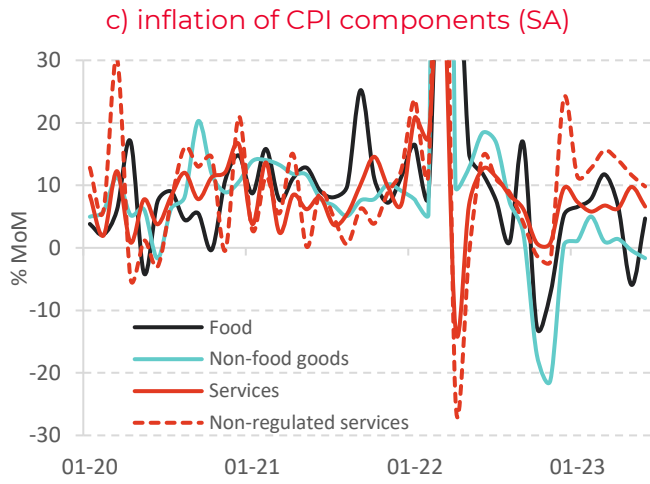
In the coming months, agricultural production will have a significant impact on GDP dynamics due to uneven harvesting campaigns in 2023 and in 2022. In addition, the likelihood of adverse effects of weather conditions on grain yields is tangible this year. If the yields of grains and legumes decline to their 2021 levels, it could cost around 1 p.p. of the annual GDP growth in Q3-2023, and it may have pro-inflationary consequences.

Inflationary risks remain elevated in the context of monetary stimulus despite a temporary inflation decline to 2.9% (YoY) in June 2023 and its likely slowdown to 2–2.5% (YoY) in the coming months

Monthly (seasonally adjusted) inflation remained low in June 2023, while annual price growth updated the all-time low and amounted to 2.9% (YoY) (Figure 6.a). Since core inflation loses its status as an indicator of sustainable price pressure in the context of strict blanket price regulation (Figure 6.b), it is advisable to monitor the dynamics of inflation in non-regulated services. The annualized price increase (seasonally adjusted) in non-regulated services remained close to 10% (MoM) in June 2023 (Figure 6.c), and the process of equalizing prices for goods and non-regulated services ended after a significant divergence between the prices formed in the spring of 2022 (Figure 6.d). It is very likely that high inflation in services can be supported by increased pressure from domestic demand in Q2-2023, a tense situation in the labor market, and the weakening of the Belarusian ruble against the US dollar and the euro. By virtue of Decree No. 713, the impact of pro-inflationary factors on the cost of goods may be distorted, but at the same time it translates into prices of non-regulated 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.