Belarus Economy Monitor:
trends, attitudes and expectations

**Express Analysis**

Economic activity and inflation

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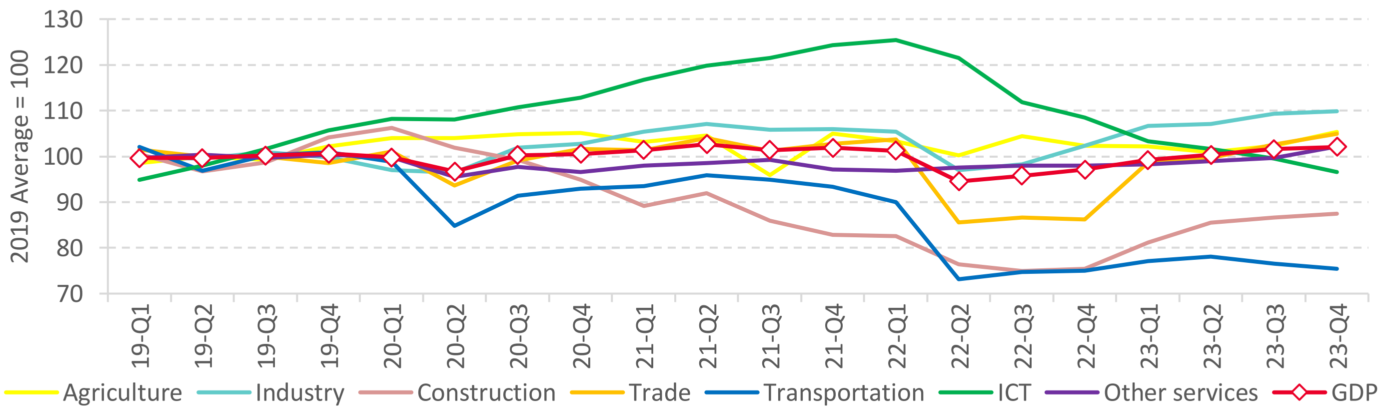
# The Belarusian economy slows down, and the Belarusian authorities may prioritize curbing inflation in 2024

*GDP grew by 3.9% in 2023. The output dynamics weakened at the year-end (Figure 1): annual growth slowed from 6.2% YoY in Q3-2023 to ≈4.9% YoY in Q4-2023 (≈4% YoY in December), quarterly growth (seasonally adjusted) slowed down from ≈1.3% QoQ Q3-2023 to ≈0.5% QoQ Q4-2023, and the seasonally adjusted volume of GDP decreased in November-December. The growth impulse has been fading due to limited supply, primarily because of labor shortage, increasing complexity of logistics, and increasing competition in the Russian market. Under the influence of these factors and due to tightening market lending conditions, the economy will stagnate in 2024, which corresponds to annual GDP growth of around 2-3% YoY in Q1-2024 and its further slowdown throughout 2024.*

*The Belarusian authorities will likely leverage directed lending and fiscal policy to prevent an output decline. This will lead to sustained excess demand, which is estimated of ≈2.5% of potential GDP in Q4-2023. Overheated demand and labor shortages will sustain pricing pressures. Judging by the statements and actions of officials, the authorities intend to keep inflation lower than 6% in 2024 through strict price controls and tightening lending conditions for businesses and households. Given the low chances of maintaining GDP growth in the range of 3-4% and considering high social and political costs of rising prices, this may indicate that economic policy will gradually shift its focus to containing inflation.*

Figure 1. Dynamics of GDP and value added in Belarusian sectors (in fixed prices)




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

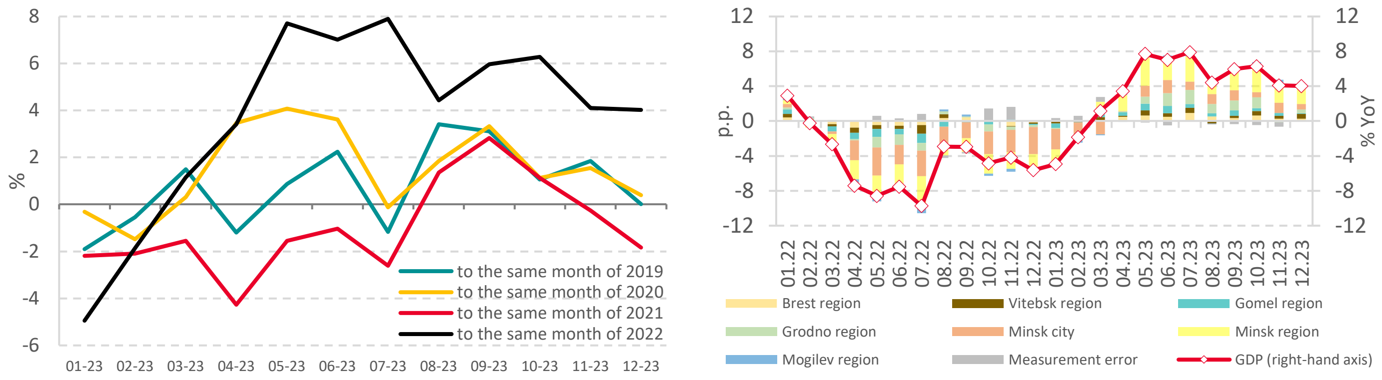
## **Manufacturing industry stagnated at the end of last year** (Figure 1), **and it was one of the key factors weakening the Belarus' GDP dynamics in Q4-2023** (Figure 2.a)

Manufacturing output (seasonally adjusted) in December remained close to the November level (Figure 3.a). In general, in Q4-2023, the manufacturing industry slightly increased its output versus the previous quarter: about 0.3% QoQ (seasonally adjusted). Regional dynamics (Figure 2.b) indicate a likely fading of the growth impulse in the mechanical engineering and metallurgical complexes, in the chemical industry and oil refining. Starting from September, manufacturing capacity has been operating at its highest level since 2013, and further rapid output expansion is challenged in an environment of declining employment and increasingly convoluted inbound and outbound supply chains for goods. In addition, competition from domestic and Chinese manufacturers has been intensifying on the Russian market. As a result, the exports of Belarusian goods have been stagnating since the autumn of 2023 (Figure 5.a). Despite the stagnant dynamics of manufacturing output, its volume in Q4-2023 was more than 4% higher than the average value in 2021 and over 10% higher than the average value in 2019 (Figure 1). Combined with record-breaking capacity utilization and potassium production that has not recovered to its 2021 levels, this industrial growth indicates that a number of sectors (primarily mechanical engineering) have been overheating by operating at their maximum capacity.

Figure 2. GDP growth dynamics in Belarus

a) GDP growth versus the corresponding months in 2019–2022

b) regional structure of GDP growth




**Note:** The estimates update once the data are verified.

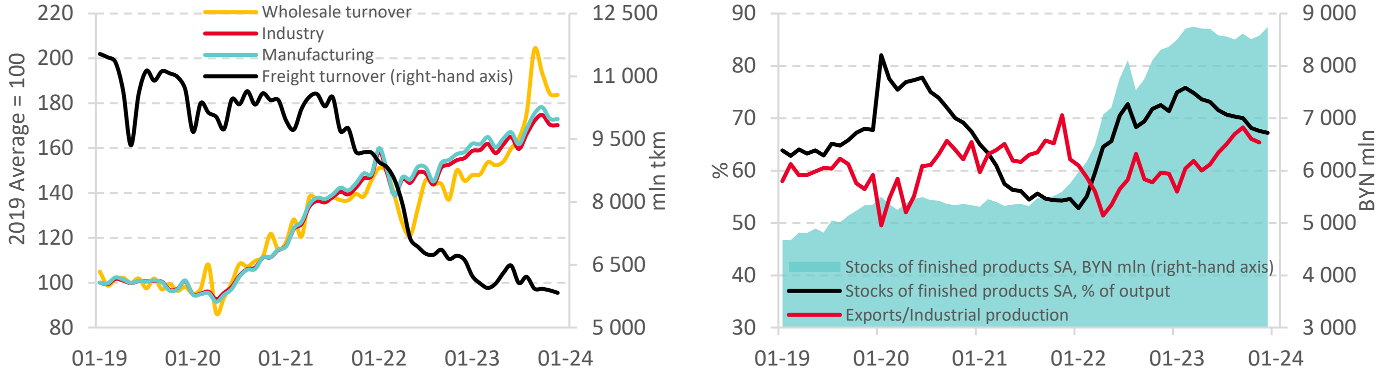
## **The transport sector and the ICT sector remained outsiders in Q4-2023** (Figure 1)

In December, freight turnover (seasonally adjusted) continued to stagnate near the minimum volumes of recent years due to decreased transit and higher competition from Russian freight forwarders (Figure 3.a). The dynamics of passenger transportation also weakened at the year-end. As a result, value added of the entire transport industry decreased by ≈1.6% QoQ in Q4-2023 versus Q3-2023, and it was ≈20% short of its 2021 quarterly average value (Figure 1).

Value added in the ICT sector decreased by ≈3% QoQ in Q4-2023 versus Q3-2023. This is the sector's seventh consecutive quarterly contraction, leaving its value added below its five-year average and about 20% lower than its 2021 value (Figure 1). The scale of decline in the ICT sector will slow down in 2024, and this sector can switch to stagnation, as the migration of businesses and professionals is likely to slow down if there are no major shocks.

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



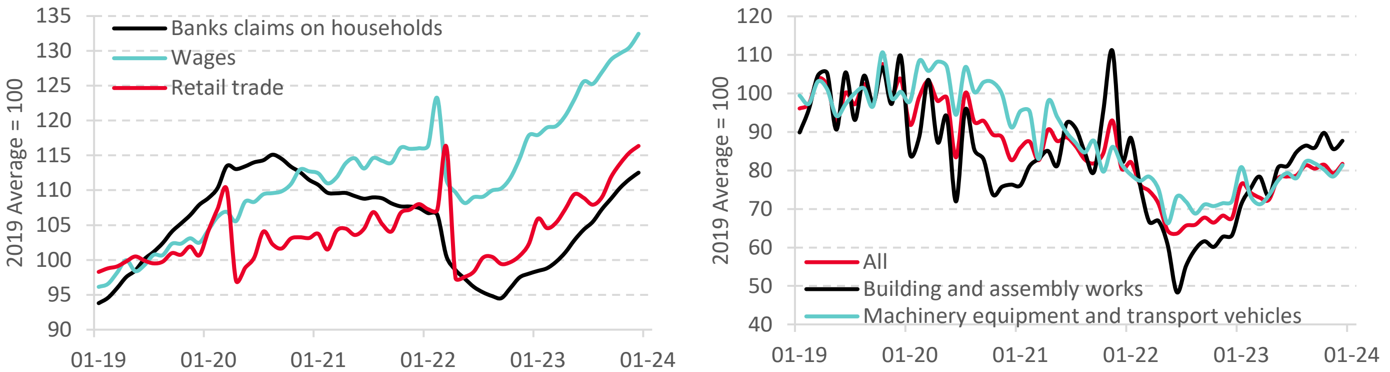

**Note:** SA is a seasonally adjusted indicator. The dynamics update once new data are published.

## The construction sector grew in December (Figure 4.b), but the overall value added dynamics in this sector weakened in Q4-2023 (Figure 1)

Investments in fixed assets increased in December versus November (seasonally adjusted), recouping the decline of the previous month (Figure 4.b). Nonetheless, the dynamics of capital investments, including those in the construction sector, slowed down in Q4-2023 in general (Figure 1). At the end of last year, investment was supported by the continued high rates of lending to the public sector, including under the influence of the expansion of the National Bank's issuing operations. The restraining effect came from continued supply challenges and maximum capacity utilization in the manufacturing industry.

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 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.

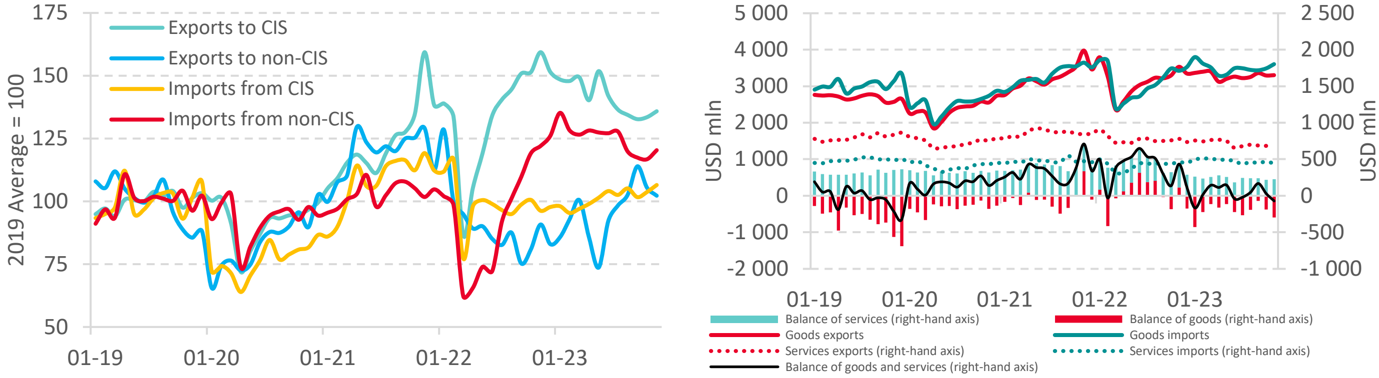
## In Q4-2023, the trade sector continued to support GDP mostly through the retail segment

Retail turnover (seasonally adjusted) expanded in December, and it was almost 11% higher in real terms than the average monthly turnover in 2021 (Figure 4.a). Growth in lending and household income continued to support consumer demand. Despite strong dynamics maintained, the growth rate of retail trade turnover has been slowing down for three months in a row, including against the backdrop of accelerating inflation. In 2024, consumer activity will weaken due to rising interest rates and a likely slowdown in wage growth dynamics as economic growth slows.

Figure 5. Dynamics of foreign trade indicators

a) value volumes of exports and imports of goods (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.

## Inflation accelerated noticeably at the end of 2023, and it amounted to 5.8% YoY at the year-end

Annualized monthly inflation (seasonally adjusted) increased to ≈9.8% MoM in December (Figure 6.a). The increase in the growth rate of the Core Consumer Price Index was the key contributor to inflation growth (Figure 6.b). The rise in prices for food and non-food products has accelerated; and in the segment of unregulated services, inflation has recovered after the November decline (Figure 6.c) associated with the fluctuations in extremely volatile pricing in tourism. The upward dynamics of inflation in recent months, especially in the non-food segment (Figure 6.d), indicates increased pressure from producer costs on prices in the environment of excess demand and production curbs (including a shortage of workers).

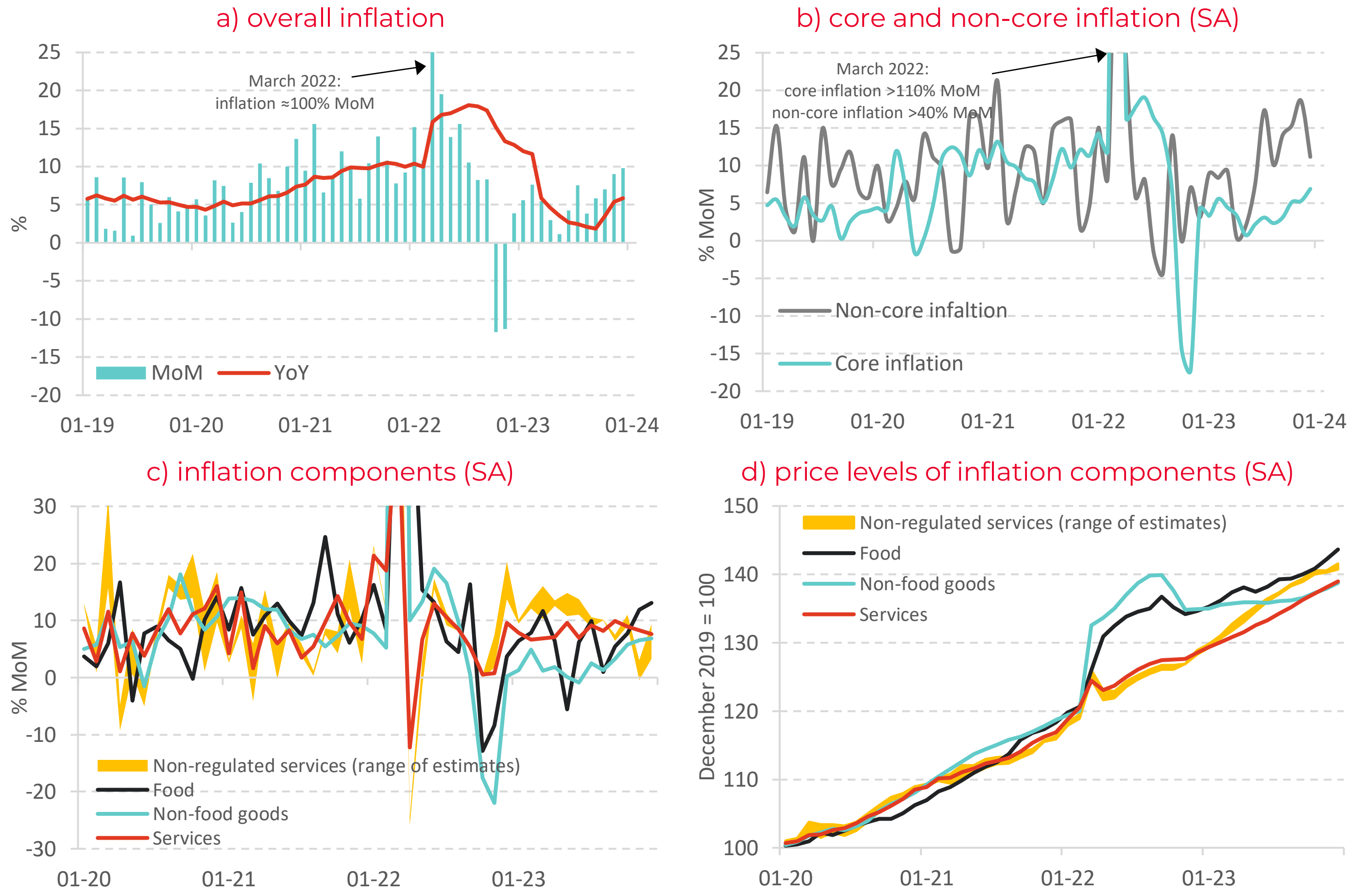
## Inflationary pressures will remain high in the first half of 2024, but there are signs of a shift in the Belarusian authorities' priority from stimulating economic activity “recklessly” to containing inflation. However, the approaches chosen by officials look suboptimal and risky

Strict price regulation limits the scale and speed of cost transfer into consumer prices, but the intensity of this process has the prerequisites to intensify in the overheated Belarusian economy. Nonetheless, changes in the price regulation system introduced in January 2024 significantly increased the uncertainty of the forecast. Judging by the actions and statements of Belarusian officials, the authorities intend to limit inflation to below 6% this year. A conservative approach to increasing administratively regulated prices and tariffs is likely, as well as further adoption of monetary and macro-prudential policy measures by the National Bank aimed at tightening market lending conditions.

At the same time as the cost of market lending increased, the Belarusian authorities intensified issuing operations through buying out government bonds on the secondary market by the National Bank (Br768 million in Q4-2023, including Br447 million in December). Given the unchanged refinancing rate, this signals the government’s intention to continue proactive directed lending in 2024. It also seems very likely that fiscal policy instruments and administrative levers will be used to prevent a sharp slowdown in economic growth down to the range of 0–1%, which would be a natural process after economy overheating.

As a result of this combination of policies, **the economy may continue to operate in a state of excess demand in 2024, but GDP growth will slow down to 1–2%, the economy's efficiency will decrease, and its fragility to shocks will greatly increase.** Under these circumstances, if the authorities primarily use strict price controls to curb inflation, this may result in a narrowing product range and a deteriorating quality of goods, as well as the accumulation of an inflationary overhang potentially leading to price growth in the future. **Long-term negative consequences of price controls may lead to weakening incentives for investment and innovation in those sectors of the economy whose products are subject to regulation.**

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.