Belarus Economy Monitor:
trends, attitudes, and expectations

Express Analysis
Economic activity and inflation

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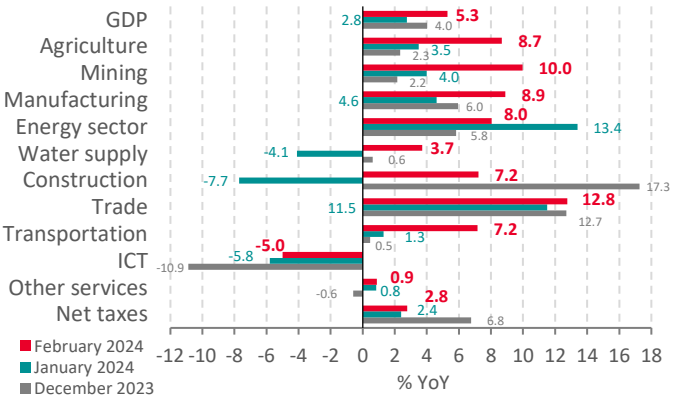
The leap year factor contributed to a temporary increase in the Belarusian GDP growth rate in February 2024

GDP grew by 4% (YoY) over two months of 2024: it grew by ≈5.3% (YoY) in February following a 2.8% increase (YoY) in January (Figure 1.a). The main reason for the indicator's growth was an extra day in February 2024. It is challenging to assess the contribution of the calendar factor to output changes precisely due to its versatile impact on economic sectors and limited availability of statistical data. Estimates based on the seasonal adjustment methods indicate that without an extra day in February, GDP growth would have been about 2–2.9% (YoY) in January-February. This corresponds to a moderate corrective growth of a seasonally adjusted output in February following its contraction over the past three months. At the same time, the GDP volume remained noticeably below its peaks reported in autumn 2023 (Figure 1.b). Annual GDP growth will slow down sharply in March, and it is expected to be close to 3% (YoY) in Q1-2024 in general.

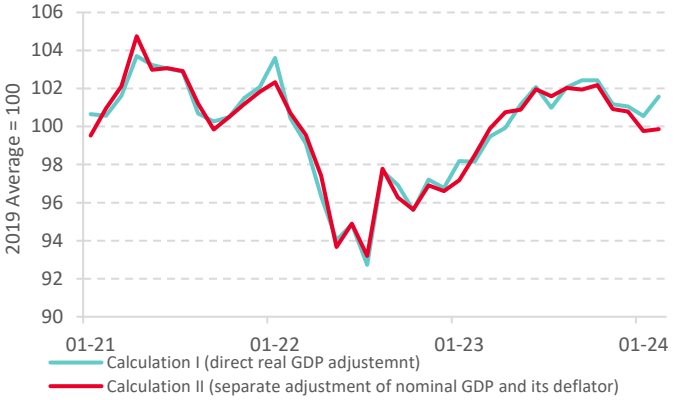
High annual GDP growth at the beginning of the year gives reason to believe that the Belarusian authorities will not intensify demand stimulation and will maintain strict price controls (at least in the first half of the year). Policy adjustments will be more likely by mid-year, when cumulative GDP growth will fall into the 1-2% (YoY) range.

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

a) growth, a month compared to the correspond. month of the previous year (%, YoY)



b) GDP volume in constant prices (seasonally adjusted)



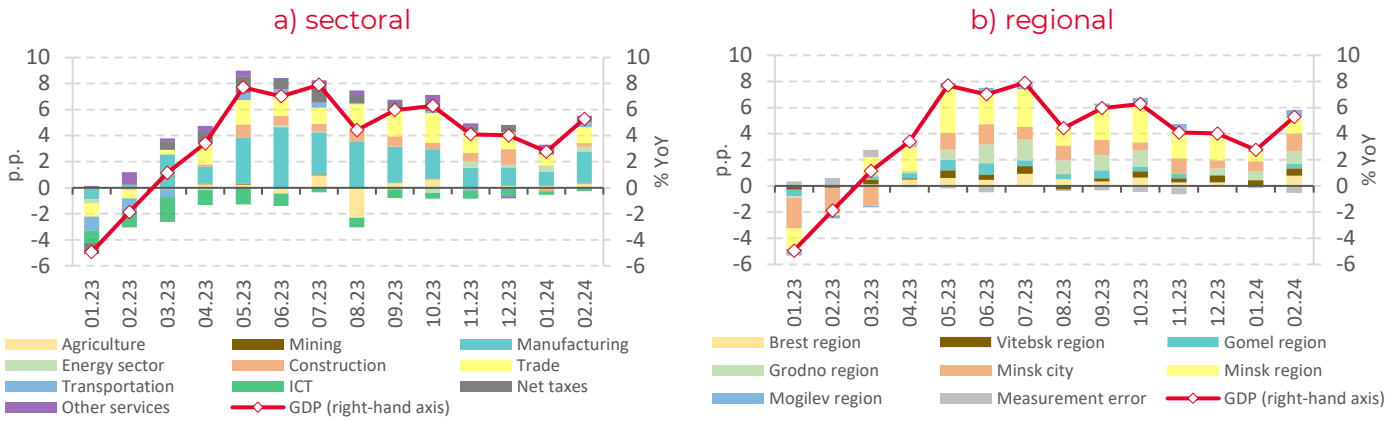
Note: The indicator dynamics updates once new data are published. Monthly GDP data are estimates, and they should be treated with caution. Quarterly data are more representative and reliable.

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

Acceleration of the industrial value added growth rate from ≈5.6% (YoY) in January to ≈8.7% (YoY) in February became the key component of GDP growth (Figure 2.a)**, but almost 4 p.p. of this increase in February can be attributed to the calendar factor**

Industrial production (seasonally adjusted, including the leap year effect adjustment) grew by about 1% in February versus January (Figure 3.a). This progress was insignificant by the standards of monthly output volatility, and it was corrective in nature following a decline of approximately the same 1% in January. Overall, the industrial sector is still stagnant and unable to overcome its extensive growth ceiling reached in the context of labor shortages, infrastructure constraints and increasingly challenging supply chains. This is also indirectly indicated by decreasing production capacity utilization from its peaks of about 70% in autumn 2023 to 68% in February 2024 (according to the estimates of the Ministry of Economy). Moreover, the wholesale trade trajectory (Figure 3.a) and the stagnation of goods exports that continued in early 2024 (Figure 5) indicate challenges in the further sustainable expansion of the Belarusian product exports. It cannot be ruled out that the industrial sector will be supported by oil refining in March-April if petroleum product exports to Russia increase. However, this factor is not sustainable.

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



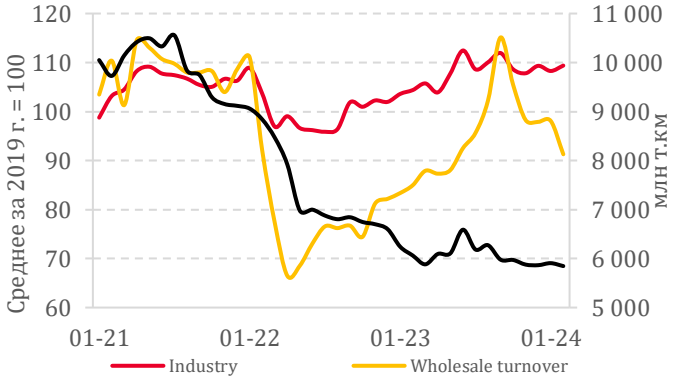
Note: The estimates update once the data are verified. The energy sector includes the water supply and sanitation subsector.

Retail trade growth accelerated in February, which could contribute to some reduction of industrial stockpiles

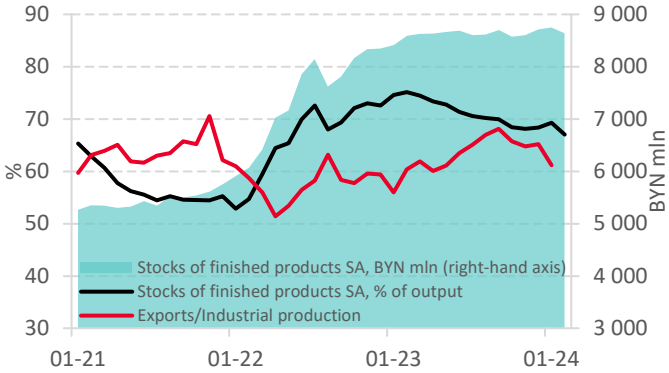
The growth in industrial inventories observed in recent months did not continue in February (Figure 3.b). Reduced industrial stockpiles in February may be partly associated with an increased retail growth rate following four months of slowdown (Figure 4.a). The expansion of consumer demand for goods was supported by a high level of the population's credit activity. This may indicate continued availability of installment plans and soft retail lending conditions for individuals. It is also possible that preferential lending at 4% for certain goods produced in Belarus will have an impact. The latter combines with declining inventories and with the fact that a faster retail trade growth in February was entirely attributable to stronger demand for non-foods. **The state of consumer demand has been increasingly threatening macroeconomic stability: the retail trade volume was more than 12% higher than in 2021, and the retail trade volume in the non-food segment (in real terms) was more than 17% higher than in 2021.** Excess demand supports inflationary pressure and leads to a high volume of imported goods (Figure 5.b).

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

a) real output in manufacturing industry (SA), wholesale trade (SA) and freight turnover (SA)



b) industrial stockpiles, and the ratio of goods exports to output



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.

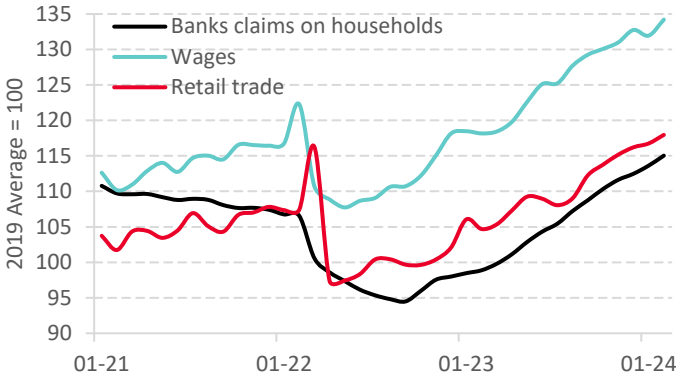
The construction sector showed moderate growth in February, which supported GDP (Figure 2.a)**, but did not compensate for the failure of investment in machinery and equipment** (Figure 4.b)

The volume of civil works (seasonally adjusted, including the leap year effect adjustment) increased by about 2.5% in February versus January following a 10%+ decline a month earlier (Figure 4.b). As a result, the construction sector only partially recovered its January losses, and activity in the sector remained quite low.

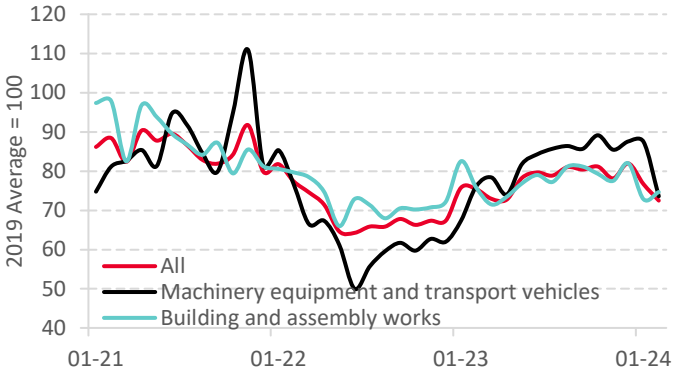
Investments in machinery, equipment and transport fell sharply in February (Figure 4.b). Such a decline may be a one-time event, given the high volatility of capital investment. However, investment dynamics have remained weak since August 2023. Weakening investment activity, coupled with industrial sector stagnation and weakening credit impulse, even under loose monetary conditions, signals continued weak prospects for a sustained increase in economic growth under currently operating institutions.

Figure 4. Retail trade and investment dynamics

a) retail trade, wages 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.

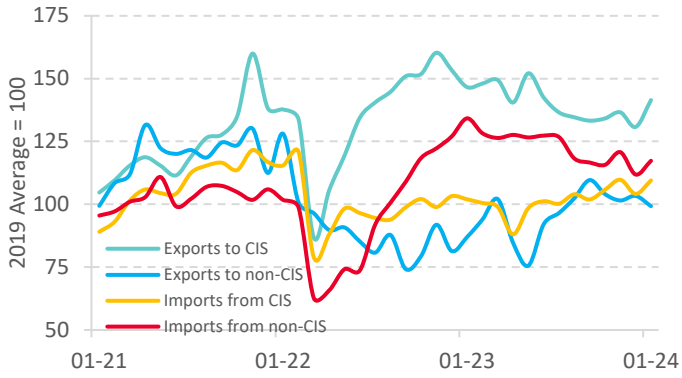
The transport and ICT sectors continued stagnating in February 2024

Freight turnover (seasonally adjusted, including the leap year effect adjustment) slightly decreased in February compared to the January volume and remained close to 60% of the 2021 level (Figure 3.a). It cannot be ruled out that a possible increase in demand for transit due to the situation in the Red Sea will have some positive impact on the transport sector. However, these effects will be short-term once the situation gradually de-escalates in the Red Sea region.

Value added in the ICT sector decreased by ≈5% (YoY) in February (Figure 1). Nominal value added in the sector decreased in February versus January (seasonally adjusted and the leap year effect adjusted). The ICT sector is likely close to ending its long decline, but rapid recovery growth is not expected.

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 updates once new data are published.

Inflation slowed down in February again mainly due to the government's conservative approach to increasing administratively regulated prices and tariffs

Annual consumer price growth decreased from 5.9% (YoY) in January to 5.6% (YoY) in February, and annualized monthly inflation (seasonally adjusted) decreased from ≈6% (MoM) in January to ≈3.2-4.3% (MoM) in February (Figure 6.a). Inflation slowdown in February is explained by the dynamics of its non-core component (Figure 6.b), where the monthly increase (seasonally adjusted) in administratively regulated prices and tariffs is estimated near zero, and the costs of fruits and vegetables (seasonally adjusted) continued to decline. The dynamics of non-core inflation may indicate an extremely conservative approach exercised by the authorities to increasing regulated prices amid the intentions of the authorities to limit inflation to 4–5% in 2024. One should not exclude the downward impact of the weakening Turkish lira on the costs of imported vegetables and fruits, and the impact of the adjusted price control system and an increasing share of sales of certain vegetables (cucumbers and tomatoes) produced in Belarus on these costs.

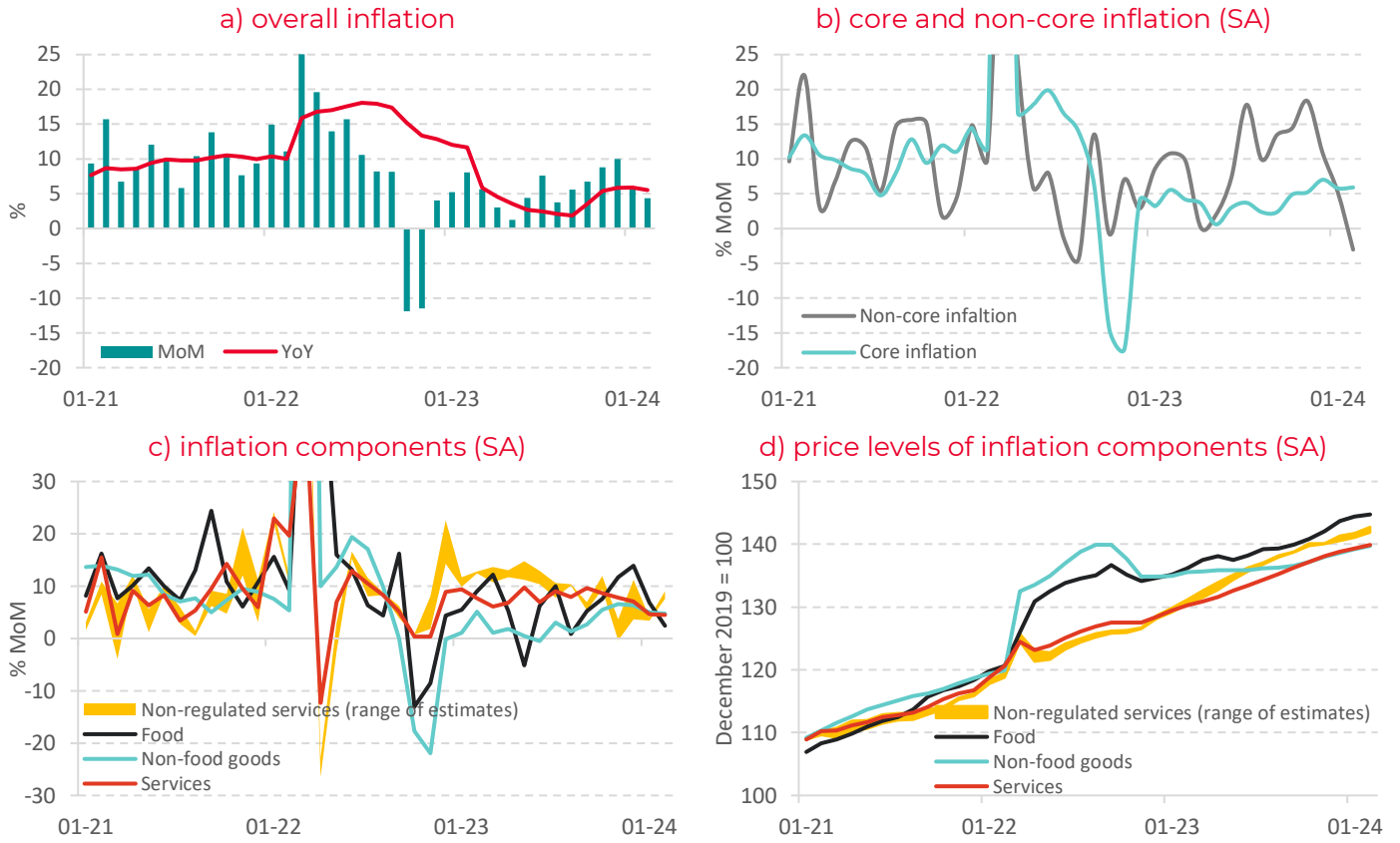
Strict price controls continued limiting core inflation, which remained close to January levels in February: slightly less than 6% (MoM) (Figure 6.b). Price dynamics in goods remained extremely restrained, both in food and non-food categories (Figure 6.c). In February, as in January, monthly increase in seasonally adjusted prices in both of these segments decreased in more than half of the items. It is possible that producers and retailers continued to adapt to the changed price control system.

Inflation in the segment of unregulated services accelerated again to 7.5–9% (MoM) in February (Figure 6.c). Its rate exceeds the inflation of non-foods in Q4-2023 through to Q1-2024 on average, which signals continued price pressure on costs in the context of labor shortages and excess demand in the economy.

Annual inflation in March is projected to be close to the February level: ≈5.5–5.8% (YoY)

The likelihood of a change in the government's approach to price regulation — at least in the first half of the year — is assessed as low. It will continue to be applied in a strict way, which will restrain the transfer of costs to prices and lead to the accumulation of an inflationary overhang. The price control system can be adjusted in the middle of the year, when the accumulated rate of GDP growth will decline to the range of 1–2% (YoY), and the government will have to prioritize its output growth and inflation targets, which are contradictory in their nature. Price regulation measures may be adopted in early Q2-2024 already if the March GDP estimates show a rapid decline in annual GDP growth.

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.