

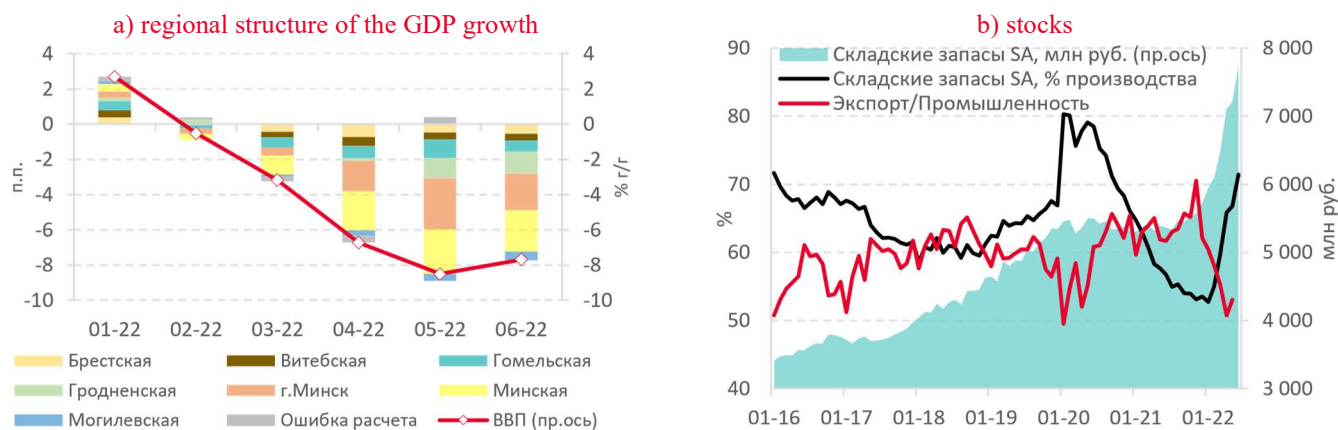
Economic activity showed signs of a weak recovery in June, while GDP remained at the level of 2017.

Belarus' GDP decreased by 4.2% (y/y) in the first half of the year, getting closer to the ceiling of the forecasted interval, which was published previously (-4.6) — (-4.1%). In particular, according to the June results, the volume of the economy was 7.7–8.1% lower than in June 2021 (Chart 1.a). At the same time, the seasonally adjusted GDP in June 2022 remained approximately at the level of May 2022 after a series of monthly declines. It should be noted that a monthly GDP is volatile and subject to revisions. Therefore, it is too early to conclude that the lowest decline point was passed and the GDP has stabilized.

Perhaps, the economy starts adapting to the changed operating conditions.

Belstat has updated the GDP dynamics in January-May 2022 by raising its nominal volume and deflator. Although, refined data on the sectoral structure have not been available yet. Therefore, it is hard to reliably estimate the monthly value added change in the sectors of the economy. According to available data, the June slowdown in the GDP decline rate can be mainly associated with a smaller decline in the sectors of agriculture, construction, and, possibly, in the sectors of trade and industrial production.

Figure 1. The Belarusian GDP growth structure and the dynamics of industrial stocks



Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. Estimates are subject to change as new data become available.

This Express Analysis is an operational analysis of the status of the key segments of the Belarusian financial market and the most important macroeconomic indicators of Belarus.

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The value added decline rate has slowed down in the construction and trade sectors, although the decline has remained deep and exceeding 10% y/y ($\approx -23\%$ y/y and $\approx -16\%$ y/y in May, respectively, according to the previous data). A slight decline decrease in the trade sector may indicate a gradual adjustment of the supply chains that market Belarusian products abroad. According to available statistics, the processing industry output also grew in June versus May (once seasonally adjusted). Such dynamics correlates with a decreased negative contribution of Minsk (where most of the wholesale trade is concentrated) and of the Gomel region (where large oil refineries and machine-building enterprises are located) to the annual GDP growth in June (Figure 1.a). At the same time, industrial processing output remained 11% lower compared to the June 2021 output, and enterprises continued making to stock: stocks grew rapidly, and the exports-to-outputs ratio remained low in May even despite a significant weakening of the Belarusian ruble against the Russian ruble (Figure 1.b).

The ICT sector dynamics has slowed down again in June, and the contribution of the ICT sector to the annual GDP growth can vanish. The dynamics in the ICT sector is becoming more and more alarming. The ICT sector has been providing a consistent 0.6 p.p. GDP growth on average over the last four years. Once this contribution is lost, this is very likely to decrease the already low potential growth rates of the Belarusian economy.

According to the results of the first seven months of this year, the decline in Belarus' GDP is expected to be about 4.5–4.9% (y/y), and it may remain close to 5% in Q1-Q3.

The GDP dynamics remained weak in June, taking into account its strong drawdown in February-May. Domestic investment and consumer activity has remained subdued: investment in machinery and equipment has dropped almost two times (versus June 2021), and retail trade has dropped by 6.1% (y/y). The EU sanctions imposed on the woodworking and metallurgy sectors, as well as on the supplies of machinery and equipment to Belarus, came into full force only in June. A significant increase in potash and petroleum product exports seems unlikely in the short-term due to logistical challenges. Supply chains in the sectors affected by the sanctions will continue restructuring, but this process is very likely to take a long time. Therefore, the volume of the seasonally adjusted GDP may remain close to the GDP level prevailing in June, which will lead to preserving deeply negative annual growth rates. A significant factor of uncertainty for the coming months is the dynamics of the agricultural sector: higher yields (compared to 2021) cannot be ruled out.

Monetary policy may continue providing temporary support to economic activity.

The Belarusian rubles issued through the foreign currency channel by the National Bank have not been withdrawn fully. Bank liquidity surplus has been expanding, which leads to lower interest rates on loans and deposits against the backdrop of rising inflation. Non-price terms of bank lending may gradually soften in this environment. As a result, the actions of the National Bank may support falling domestic demand, but at the cost of higher inflation. It is also worth paying attention to an increased issuance of bonds by the Ministry of Finance. Perhaps, this is how the government's role in redistribution of financial resources has been strengthening. Apparently, the public sector will be the beneficiary of anti-crisis support measures again; although, unfettering business initiative in the private sector could facilitate faster adaptation to new economic realities.