

Belarus Economy Monitor: trends, attitudes and expectations

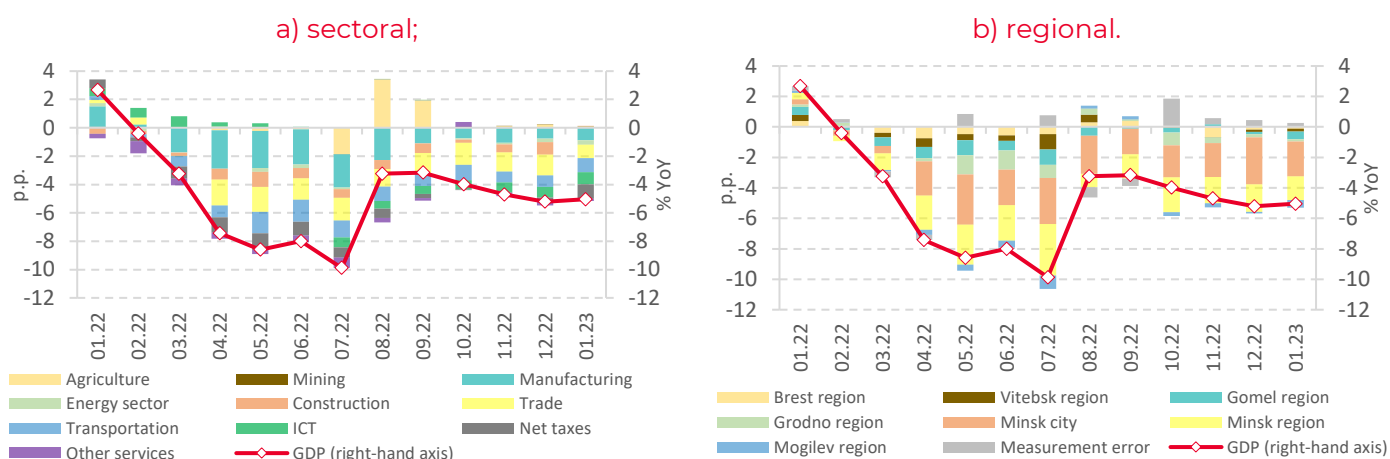
Express Analysis Economic Activity

February 2023

Belarus' GDP stagnated at the beginning of this year

Belarusian GDP decreased by 5% (YoY) in January 2023 after declining by $\approx 5.2\%$ (YoY) a month earlier. January's GDP (seasonally adjusted) remained close to the December 2022 GDP values, which was close to the average values in 2011 and 2017. The output of the vast majority of the economy's sectors was still significantly smaller than the pre-war output indicators (Figure 1.a). This indicates that the value chain restructuring process is far from being completed. The GDP's decline may amount to ca. 4–4.5% (YoY) in January-February. Output reduction rate will slow down in the future as the Belarusian economy adapts to new realities, if there are no significant shocks.

Figure 1. The GDP growth structure in Belarus



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

The ICT sector maintained its negative trend at the beginning of this year

The value added in the ICT sector fell by 13.2% (YoY) in January following its contraction by $\approx 10\%$ (YoY) in December 2022. It is possible that a significant output decline rate will maintain in the ICT sector until July-August 2023: this sector deteriorated sharply in July-August 2022.

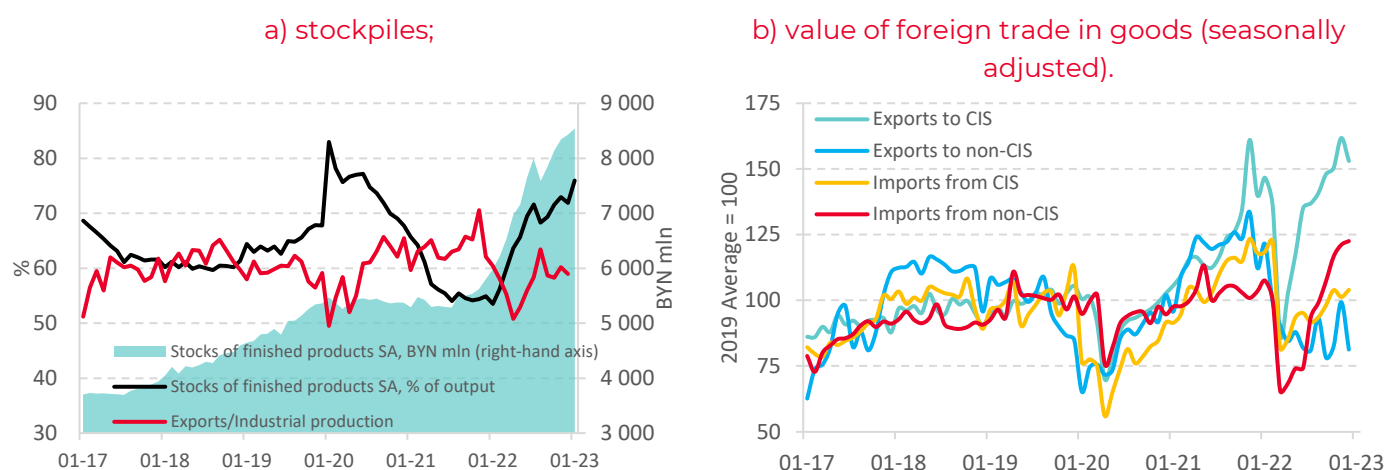
This Express Analysis is an operational analysis of the status of the key macroeconomic indicators of Belarus.

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The manufacturing sector has not completed its adaptation to new conditions

The value added in the sector fell by 3.8% (YoY) in January following its contraction by $\approx 3.3\%$ (YoY) in December 2022. At the same time, stockpiles continue growing (Figure 2.a). Based on the available information about the regional context, the production of the food, oil refining and mechanical engineering sectors fluctuates at a relatively high level. These sectors supply their products mainly to Russia, where there is room for growth due to the exit of Western companies and the needs of the military-industrial complex, or through Russia. At the same time, the dynamics observed in recent months indicates the likely difficulties with increasing the output of the above-mentioned sectors due to production constraints. The sanctioned sectors — chemical and woodworking industries — continue facing significant challenges; the redirection of their supplies through Russia and other EAEU countries is constrained due to infrastructural impediments.

Figure 2. Dynamics of stockpiles 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.

The trade and transportation sectors continued significantly affecting the GDP dynamics in January

The value added in the trade sector decreased by 12.1% (YoY) in January following its drop by $\approx 14.2\%$ (YoY) in December 2022, and the value added in the transportation sector decreased by 19.6 (YoY) in January following its decline by $\approx 16.8\%$ (YoY) in December 2022. A serious drop continues to be observed in wholesale sales and freight traffic, which indicates the persistence of deeply negative growth rates in the physical volumes of exports of Belarusian goods. Sanctions and infrastructural impediments do not yet allow to fully redirect foreign trade flows to Russia and a number of other countries even despite the strong growth in supplies to Russia in Q4-2022 (Figure 2.b).

The construction sector came out of the red for the first time in the last two years

The value added in the sector increased by 0.2% (YoY) in January following its decline of $\approx 11\%$ (YoY) in November-December 2022. The construction sector growth was identified amid a rapid surge in investments (Figure 3.b). At present, it is difficult to assess whether this growth is a one-time phenomenon associated with the commissioning of individual buildings and structures or this is the beginning of a new trend. In general, the construction sector had a minimum growth rate in January, and the value added in the sector was $\approx 13\%$ lower than in January 2020.

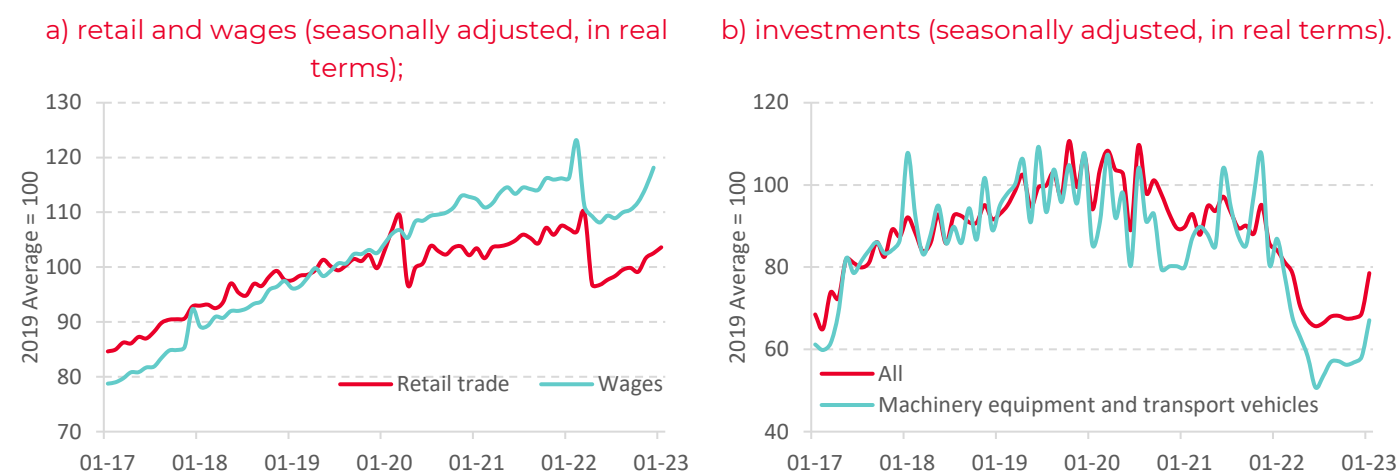
Investments rose sharply at the beginning of this year

In January, there was a significant increase in investments in fixed capital, including investments in machinery and equipment (Figure 3.b). It cannot be ruled out that such dynamics will be a one-time phenomenon: similar temporary investment bursts have not been uncommon in recent years; and in general, their trajectory is highly volatile (Figure 3.b). At the same time, the likelihood of significant stimulation of investment demand through quasi-fiscal and monetary measures remains high. In the short term, such a policy may have a positive effect on output, but negative consequences will start emerging already within 1-2 years in the form of persistently high inflation and expulsion of more productive private investment.

Consumer demand continues recovering

Retail trade turnover maintained moderate growth rates in January (Figure 3.a). Consumer demand has been recovering amid higher wages and lower interest rates on loans and deposits. It is noteworthy that consumption recovery has been slower in recent months compared to wages (Figure 3.a). At the same time, retail demand for foreign currency decreased in December-January (seasonally adjusted), and fixed-term Belarusian ruble deposits grew mainly due to increasing interest rates and family capital accrual. All of this may indicate that the dynamics of aggregate income noticeably lags behind wages amid employment decline and migration.

Figure 3. Retail trade and investments 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 December 2022) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators of real investments have been calculated by deflating the nominal investments 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 indicators dynamics updates once new data are published.