

Belarus Economy Monitor: trends, attitudes and expectations

Express Analysis

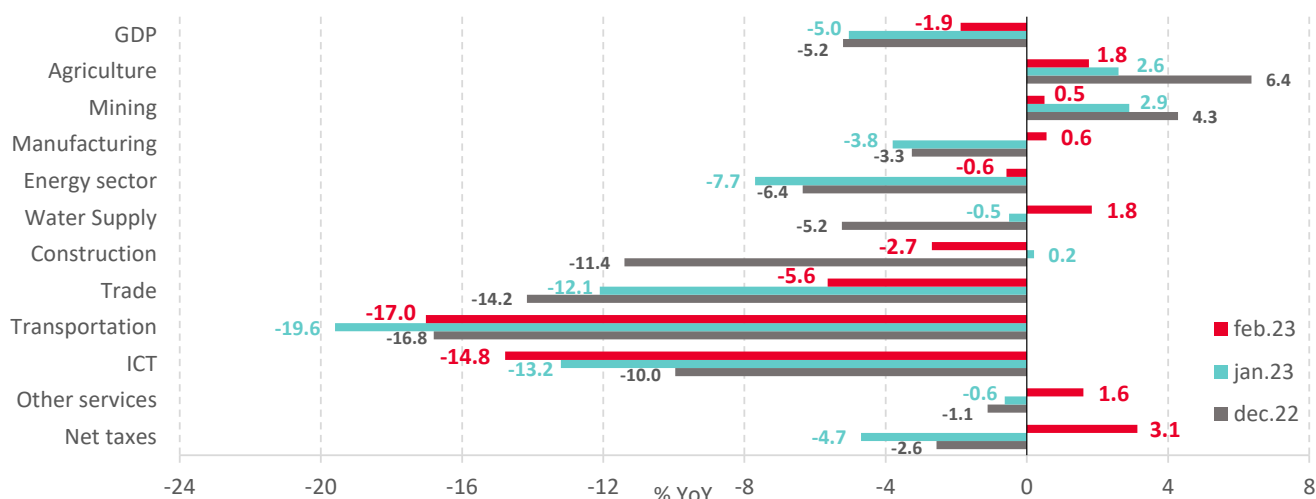
Economic Activity & Inflation

March 2023

GDP of Belarus showed signs of recovery in February

GDP of Belarus for the first two months of 2023 decreased by 3.6% y/y. Specifically, in February, the indicator decreased by approximately 1.9% y/y after a decline of approximately 5.0% y/y in January. Compared to January, the volume of GDP (with the elimination of seasonality) significantly increased (by approximately 0.7%). This indicates the formation of a recovery dynamics in output, although risks regarding its strength and stability remain relevant. The recovery dynamics of economic activity was mainly supported by an increase in the output of the manufacturing industry, growth in net taxes on products, and a reduction in the decline of wholesale trade (Figure 1; Figure 2.a). It is likely that a number of Belarusian enterprises managed to establish imports of components for the production of cars and trucks, as well as maintain the chains of export of oil products. An increase in the output of potash fertilizers cannot be excluded, including against the background of rumors about the easing of EU sanctions. The decrease in the output of the ICT sector and the decline in the transport industry continued to have a restraining effect on GDP in February. For the entire Q1 2023, the decline in GDP will be approximately 2-3% y/y.

Figure 1. Dynamics of GDP and value added by sectors in Belarus (month to corresponding month of the previous year – % YoY)



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

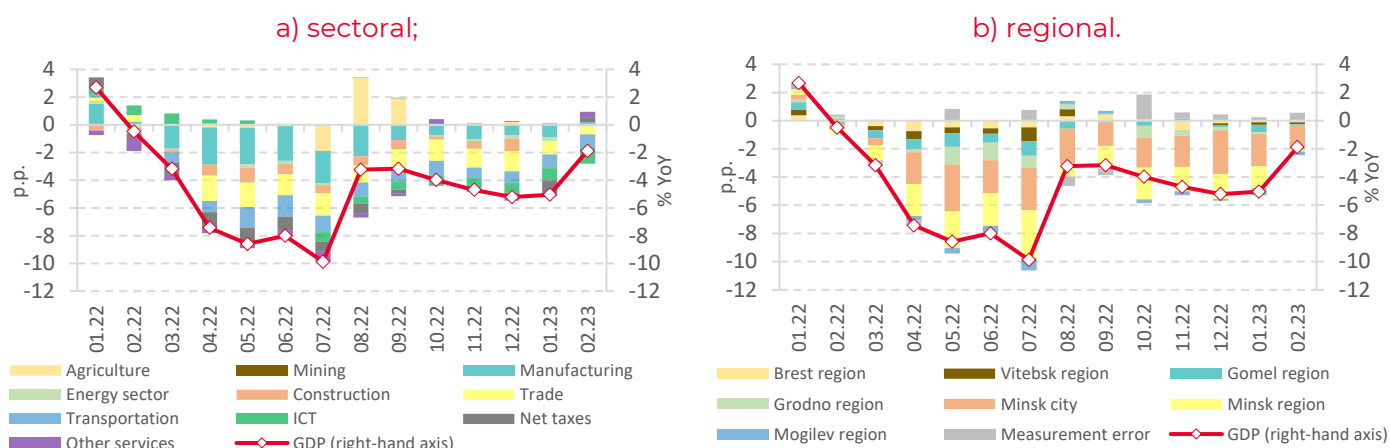
This Express Analysis is an operational analysis of the status of the key macroeconomic indicators of Belarus.

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The value-added of manufacturing increased by $\approx 0.6\%$ y/y in February 2023, marking the first y/y increase since February 2022

The contribution of manufacturing to the change in GDP was positive ≈ 0.15 p.p. in February 2023, compared to a negative ≈ 0.9 p.p. in the previous month (Figure 2.a). The production of manufacturing industries in the Minsk region turned positive after a two-digit decline since March 2022, and the y/y growth rate of production accelerated in the Gomel region. In the latter case, the effect of increasing oil processing in the context of establishing export supplies and substantial benefits from the expanded Urals-to-Brent discount may be at play.

Figure 1. Structure of the GDP growth in Belarus



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

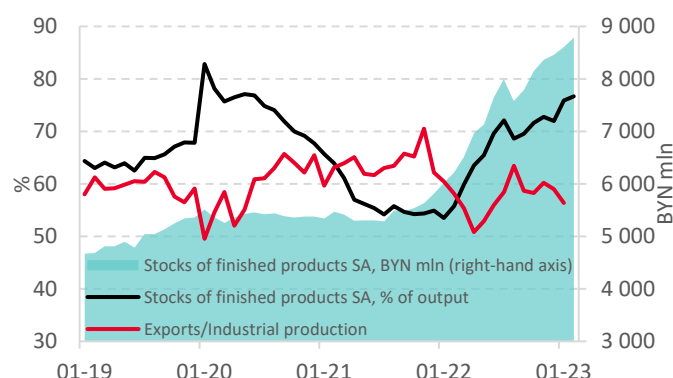
In the Minsk region, the positive effect on the dynamics of production y/y was due to the effect of low base: the decline here began in February 2022 due to the cessation of potassium transit through Lithuania (Figure 2.b). The production of potash fertilizers in February 2023 could be slightly higher than in February 2022 due to the adjustment of delivery schemes through Russia. However, judging by the dynamics of the industry, the output of potash is still tens of percent below the level of full capacity utilization. At the same time, one low-base effect does not explain the recovery of production in the Minsk region. Perhaps the growth of output in February was noted at large engineering enterprises (BELDZhl and/or BelAZ), which presumably managed to establish supplies of components and sales in Russia. This factor could also contribute to a noticeable reduction in the decline in trade in February (Figure 1) thanks to wholesale sales. The dynamics of manufacturing in other regions indicates the preservation of previously identified trends: the food industry and other engineering industries (including electronics and military-industrial complex) presumably continue to show a positive growth of output y/y, but its increase is limited by production constraints.

In February, stocks continued to grow – their volume per output (with the elimination of seasonality) **reached levels last seen in the acute phase of the pandemic in 2020** (Figure 3.a). Therefore, the recovery of industrial production is partly accompanied by work in stock, which will have negative financial consequences if sanction restrictions become long-term.

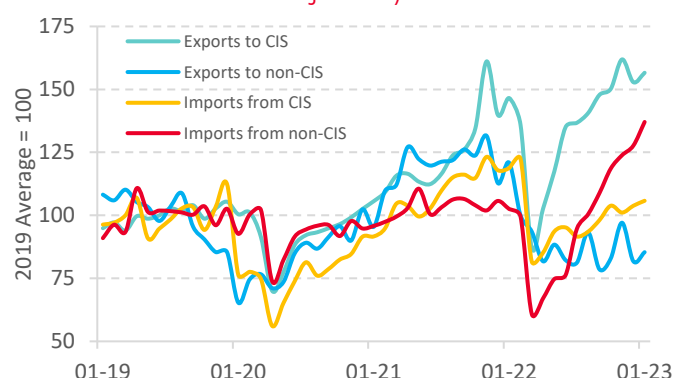
In the coming months, the annual growth rates in the manufacturing industry will accelerate as the calculation will come out of the shock decline of March-April 2022. At the same time, **the sustainability of the recovery dynamics is not obvious** against the background of growing inventories, monetary stimulus, prices regulation, and questions about the stability of sales markets, including due to the application of secondary sanctions.

Figure 3. Dynamics of stockpiles and foreign trade in goods

a) stockpiles;



b) value of foreign trade in goods (seasonally adjusted).



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.

Net taxes on products added ≈ 0.3 p.p. to the y/y GDP change in February after a negative contribution of ≈ 1 p.p. in January

The increase in net taxes may be related to the increase in excise taxes on alcohol and tobacco at the beginning of 2023, as well as to the continued growth in imports from non-CIS countries at the beginning of this year (Figure 3.b). It is noteworthy that explosive growth in imports to Belarus was noted in non-food items (+66.6% y/y or +\$285 million y/y in January) against the backdrop of restrained consumer demand (Figure 4.a). This indirectly supports the hypothesis of re-export of goods by Belarus to Russia under different sanction regimes.

The decline in the transport sector took away ≈ 1 p.p. from the y/y GDP change in February

The value added of the sector fell by $\approx 17\%$ y/y in February after a decrease of 19.6% y/y in January (Figure 1). The decline is due to a deep drop in freight turnover (-34.2% y/y). In the conditions of y/y growth in the manufacturing industry, the decline in freight turnover can be explained by changes in the industry structure (an increase in the share of mechanical engineering with a decrease in wood processing, the production of construction goods and the chemical industry), an increased share of production going into inventory, and a reduction in transit transportation.

As expected, the ICT sector dragged down GDP in February

The value added in the ICT sector fell by $\approx 14.8\%$ y/y in February after a decrease of 13.2% y/y in January (Figure 1). As a result, the industry made a negative contribution to the GDP change of ≈ 1.1 p.p. - the worst indicator since the beginning of the current crisis (Figure 2.a). Significant rates of decline in IT production will continue at least until the third quarter of 2023.

Investments slowed down in February after a surge in January

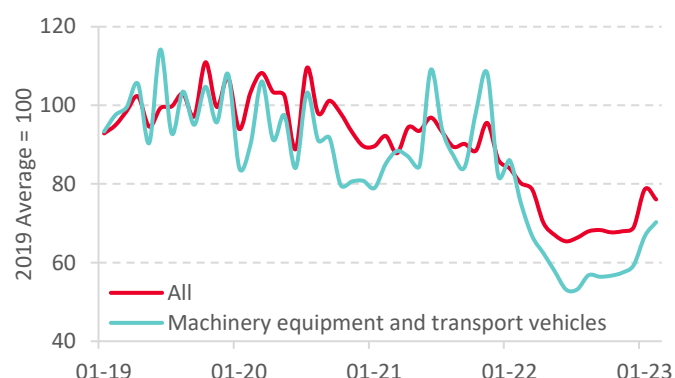
The volume of investments decreased slightly in February compared to the January level due to a downward correction in construction (Figure 1) and other works and expenses. Investments in machinery, equipment, and vehicles, on the other hand, continued to recover, albeit at a slower pace (Figure 4.b). Overall, investments in February fell noticeably short of pre-war levels: the business climate in Belarus remains unfavorable, supply difficulties are likely to persist despite positive developments in individual sectors. Support for investment activity in the coming months can be expected from soft monetary policy and possibly quasi-fiscal operations.

Figure 4. Retail trade and investment dynamics

a) retail trade and wages (seasonally adjusted, in real terms);



b) investments (seasonally adjusted, in real terms).



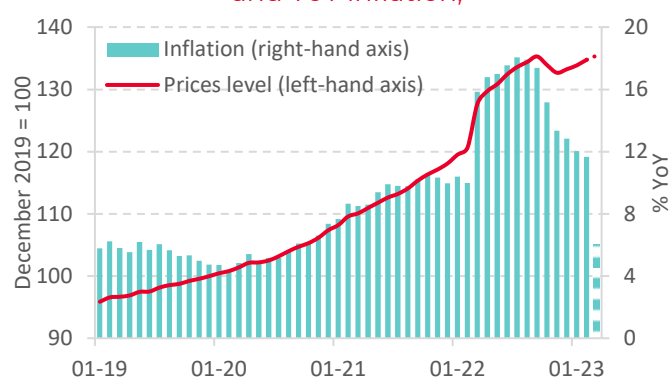
Note: The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage (on the graph for January 2023) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators 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.

The impulse of recovery in consumer demand has decreased

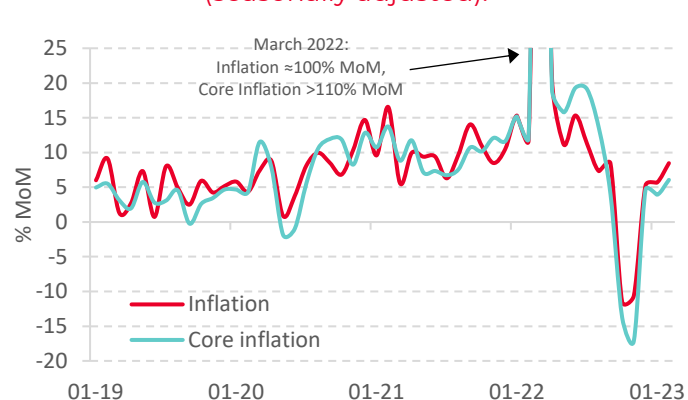
Retail turnover increased slightly in February, but the growth rate significantly slowed down. Salary increases since October 2022, in conditions of job cuts, are not yet sufficient to boost consumer demand, which is significantly below pre-war levels (Figure 4.a). The decrease in demand from the population for foreign currency in recent months (with the elimination of seasonality), the minimal inflow of fixed-term ruble deposits (excluding interest accrued and family capital) and the not very strong growth in lending against the backdrop of the availability of credit resources and a decrease in interest rates indirectly indicate a decrease in the level of well-being of Belarusians.

Figure 5. Dynamics of consumer prices

a) price level (seasonally adjusted) and YoY inflation;



b) monthly inflation (seasonally adjusted).



Note: YoY is the growth rate in the month versus the corresponding month of the previous year; QoQ is the annualized growth rate in the month versus the previous month, seasonally adjusted. The assessment for March 2023 is presented in Figure 5a as a dot curve and a bar with a patterned fill

Inflation accelerated in February, and prices will continue to rise in the coming months

Seasonally adjusted growth in consumer prices in February is estimated at around 0.56-0.68% m/m, which, in annualized terms, corresponds to 7-8.5% (Figure 5.b). It is important to note that the growth of the core consumer price index is gradually recovering after the "manual" reduction in October-November 2022 (Figure 5.b). The trajectory of inflation indicates the persistence of inflationary pressure, which gradually translates into price increases after the easing of administrative controls over them. Probable factors of this pressure include the weakening of the Belarusian ruble, increased costs due to the transformation of production and logistics links, and recently, possibly, the growth of wages.

In the coming months, price growth will continue at a pace of probably around 0.5-0.7% per month with the elimination of seasonality. At the same time, there will be a sharp decrease in annual inflation. The year-on-year growth of prices will slow from 11.7% YoY in February to around 6-7% YoY in March and closer to 5% YoY in April. Such a trajectory is associated with the exclusion of the annual inflation rate calculation of a sharp jump in prices in March-April 2022: prices in March 2023 will be compared with already significantly increased prices in March 2022. However, the level of prices will continue to rise (Figure 5.a), and inflationary risks prevail due to the high probability of excessive stimulation of domestic demand in an attempt to achieve planned economic growth targets.