

# Belarus Economy Monitor: trends, attitudes, and expectations

## Express Analysis

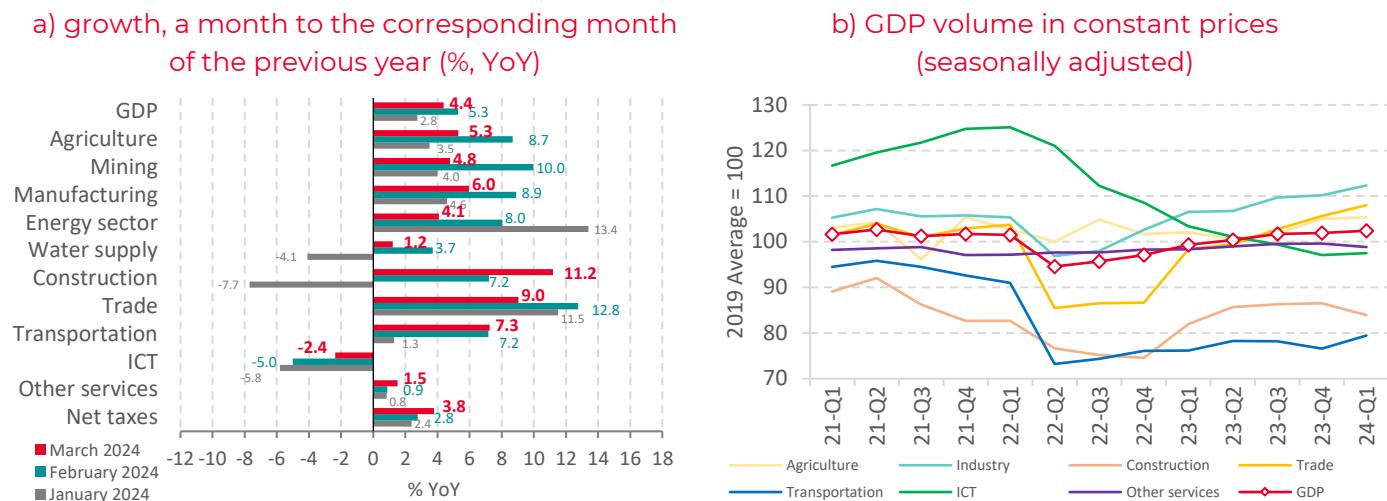
### Economic activity and inflation

April 2024

## Growth of Belarusian GDP exceeded expectations in Q1-2024, but its quality looks increasingly alarming for macroeconomic stability

In Q1-2024, GDP grew by 4.1% YoY, including a ≈4.4% YoY growth in March (Figure 1.a). Seasonally adjusted output grew by over 1% in March versus February, and in general, output growth was ca. 0.5–0.6% in Q1-2024 versus Q4-2023 (Figure 1.b). Thus, Belarusian GDP grew at a rate exceeding balanced growth in Q1-2024 again. The continued loose monetary conditions, directed lending and rapid increases in wages amid labor shortages reinforced the already extremely high consumer demand. Combined with Russian GDP growth significantly exceeding consensus forecasts, excess demand supported the exhausting operations of the Belarusian manufacturing industry. At the same time, investment — despite its rebound in March — noticeably declined in Q1-2024: its volume was near the levels of late 2007, and the investment's share in GDP was lowest in almost 20 years. As a result, the quality of economic growth looks poor, and the economy continues to overheat largely following the pathway of unstable growth of the Russian economy leaning to the military-industrial complex.

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



**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 key macroeconomic indicators of Belarus.

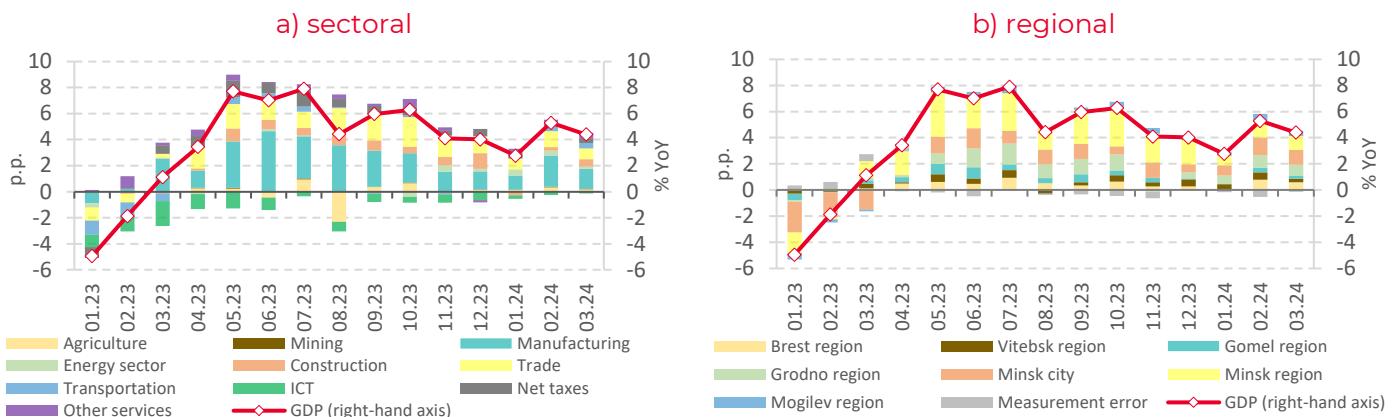
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## Industrial value added increased by ≈5.6% YoY in March: the sector remained to be the GDP's driver (Figure 2.a)

Industrial production (in real terms, seasonally adjusted) grew by ≈2% in March versus February (Figure 3.a). Similar surges were recorded last year, and they were associated with temporary peak production volumes of petroleum products and, possibly, potash fertilizers. Regional industry dynamics indicate that March 2024 could also see an increase in oil refining and potash fertilizer production. At the same time, the stockpile dynamics gives reason to believe that the increased volume of petroleum product output was not sold in full, but it was partially used to replenish reserves possibly for a prompt increase in supplies to Russia once needed (Figure 3.b). In an environment of further “swelling” of the Russian military-industrial complex, March growth could also be maintained in mechanical engineering, where the utilization of production capacities is at a beyond optimal level.

Overall, the industry grew by ca. 2% in Q1-2024 versus Q4-2023 (seasonally adjusted) and continued being the driver of GDP growth. The value added of industry was more than 6% higher than the 2021 quarterly average, and it was almost 7% higher in manufacturing (Figure 1.b).

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.

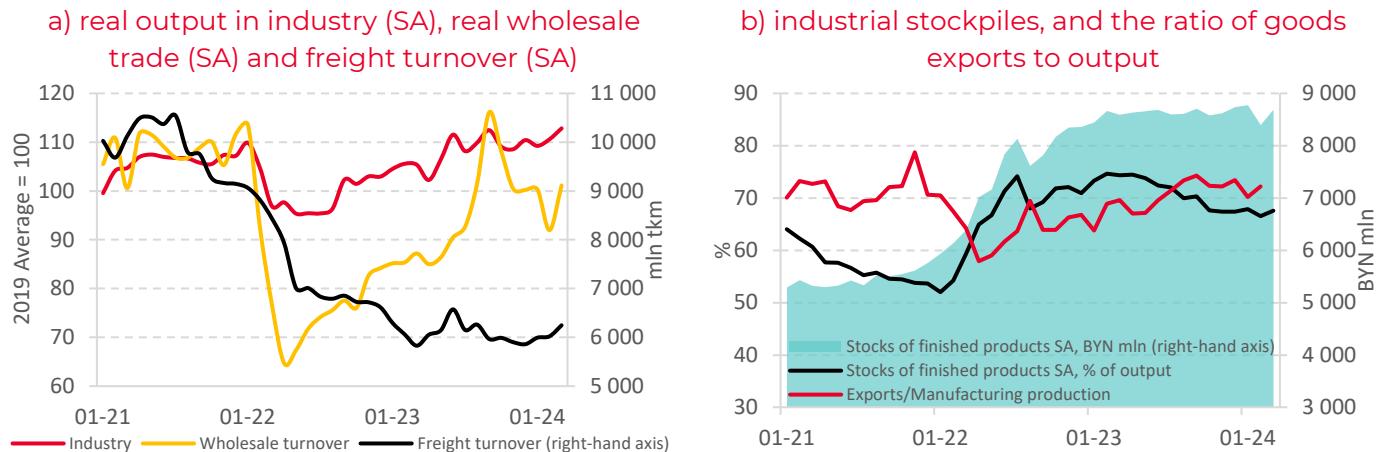
## Industrial growth contributed to higher freight turnover and wholesale trade

The output increase translated into growing cargo transportation and restoring wholesale trade in March 2024 due to strong cross-industry effects generated by the industrial complex (Figure 3.a). The increase in cargo turnover is so far only a weak adjustment following several years of decline: its volume remained ca. 37% below its 2021 value. Overall, in Q1-2024, value added of the transport sector (including passenger transportation) increased by ca. 4% versus Q4-2023 (seasonality adjusted), but it still fell short of ca. 16% versus its average value in 2021 (Figure 1.b).

## The ICT sector remained stagnant in Q1-2024

In Q1-2024, value added of the information and communications sector remained close to the local bottom value of the previous quarter, which corresponded to the output volume of the first half of 2019 (Figure 1.b). Thus, the ICT sector may be slowly recovering from its long-term decline, but its growth prospects look dim.

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

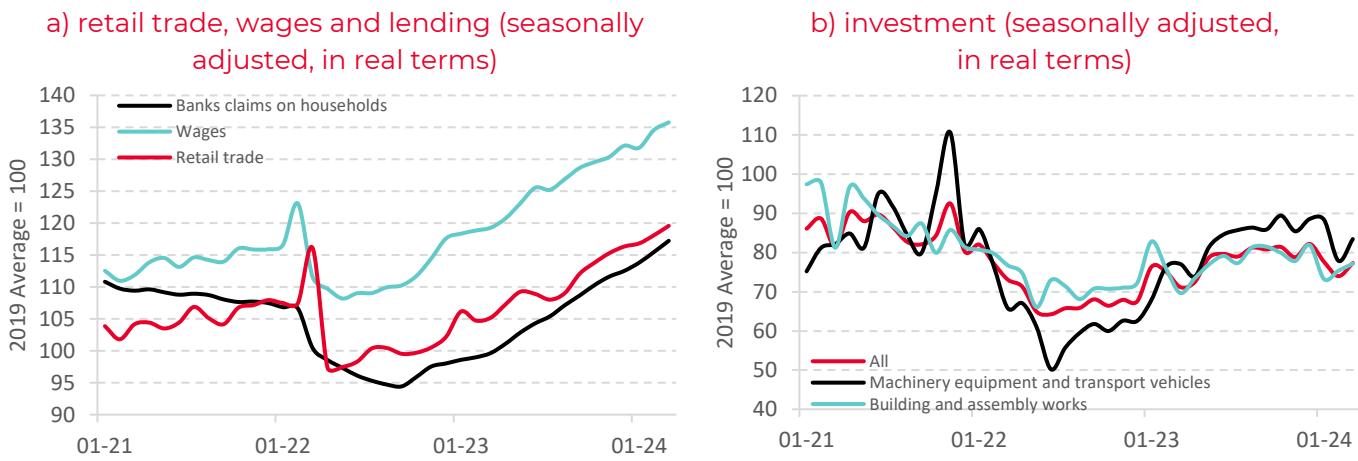


**Note:** SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal wholesale trade volume by the wholesale trade price index. The real industrial output volume has been calculated based on the Belstat's Industrial Output Index in 2015 prices. The dynamics updates once new data are published.

**Consumer demand continued to grow at a rapid pace in Q1-2024, resulting in the value added of the trade sector significantly exceeding its pre-crisis volumes (Figure 1.b)**

Retail trade turnover increased noticeably in March again; it was stimulated by the expanding credit activity of households and by high wages growth (Figure 4.a). In March, the volume of goods consumption by the population was almost 14% higher and more than 20% higher in the non-food segment versus 2021 (in real terms). Consumer demand looks seriously overheated, and delayed tightening credit conditions will lead to a further expansion of the supply-demand imbalance. This is fraught with a deterioration in the state of foreign trade in goods and services, which (seasonally adjusted) was in deficit in January-February 2024 (Figure 5.b), increased inflationary and devaluation pressure, and a noticeable increase in the "fragility" of the Belarusian economy.

### Figure 4. Retail trade and investment dynamics



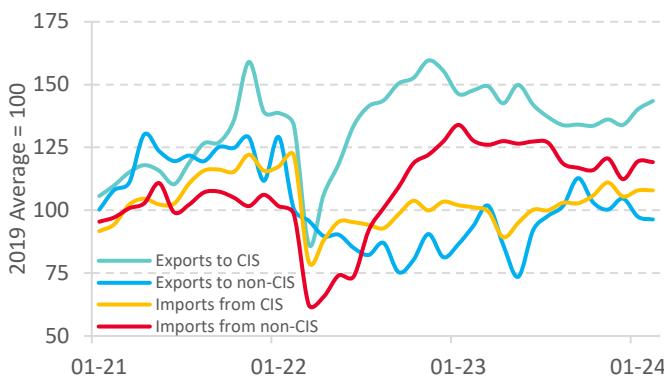
**Note:** The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated 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 construction sector grew in March 2024, but this was not enough to compensate for the decline at the beginning of the year (Figure 4.b)

As a result, the construction sector remained one of the outsiders in Q1-2024: its value added was 4% behind its 2021 level and more than 20% behind its 2019 level (Figure 1.b). The volume of investment in machinery, equipment and vehicles also decreased in Q1-2024 (Figure 4.b). Extractive institutions do not generate sufficient incentives for investment and innovation, and blanket price control prevents the already limited investment potential from unleashing. At the same time, it cannot be ruled out that smaller investment in machinery and equipment at the beginning of the year may be partly explained by the increasingly complex schemes for financing their supplies to the country due to sanctions pressure.

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.

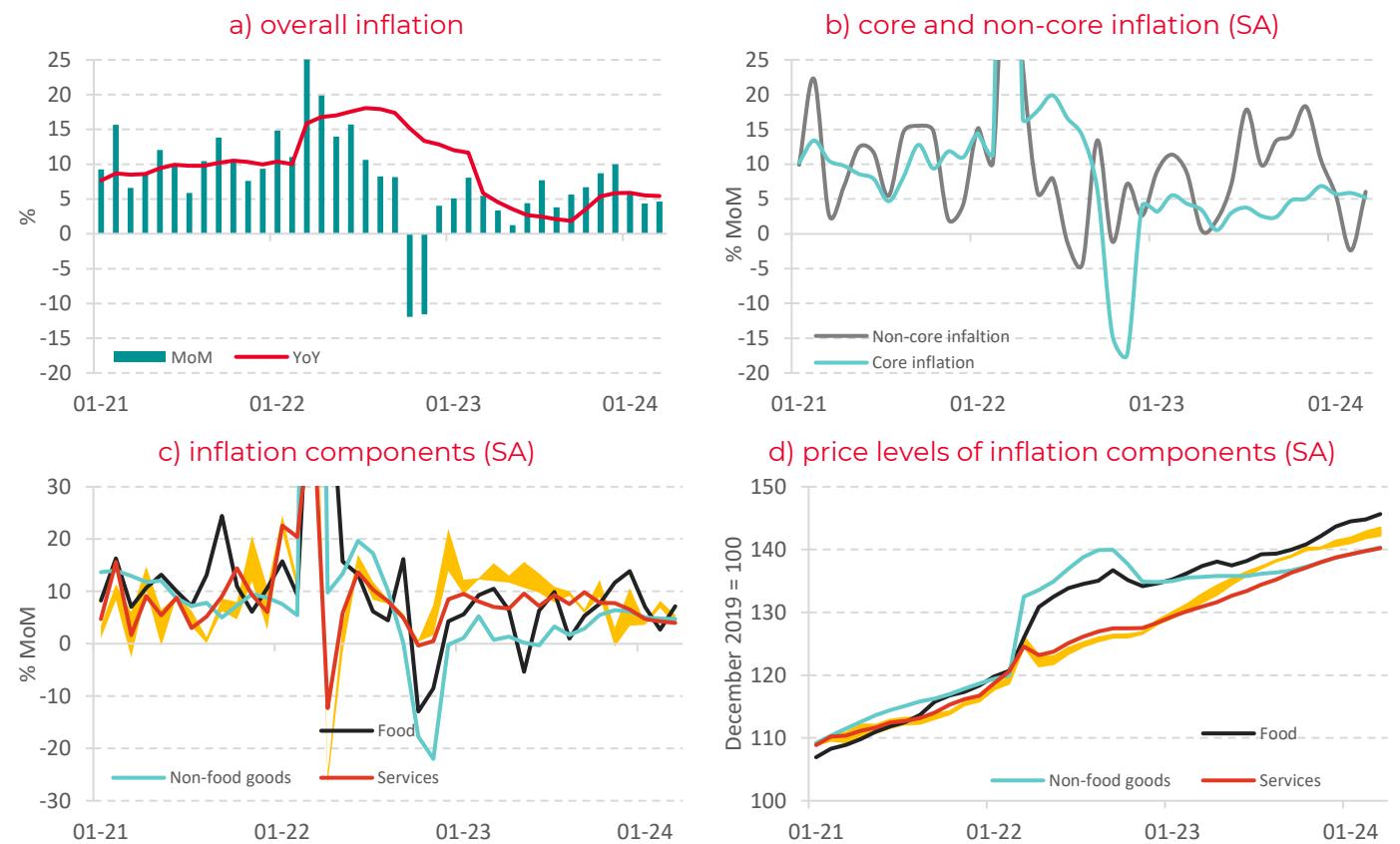
## Inflation remained low in March amid blanket price control

Annual consumer price growth slowed from 5.60% YoY in February to 5.55% YoY in March, and annualized monthly inflation (seasonally adjusted) remained low: ≈4.6–5.6% MoM (Figure 6.a). Strict government regulation limits the possibility to translate consumer demand and labor market pressures into prices, which is reflected in the suppressed core inflation dynamics (Figure 6.b), especially in the non-food segment (Figure 6.c). At the same time, the price level for unregulated services continues to significantly exceed the price level for all services (most of which are directly regulated by the government) and non-food products, which emphasizes the high likelihood of a significant inflationary overhang (Figure 6.d).

The non-core inflation dynamics also remained weak in March: the annualized monthly indicator (seasonally adjusted) was estimated at ≈6% MoM (Figure 6.b). Its increase — versus February — is explained by the rise in prices for fruits and vegetables by more than 15% MoM after two months of their noticeable decline, which accelerated food price growth (Figure 6.c). The increase in administratively regulated prices and tariffs remained below 5% MoM since the authorities' exercised a conservative approach to their increase.

## Inflation will remain low in April: annual inflation rate is forecasted to be around 5.6–5.8% YoY

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.