

Belarus Economy Monitor: trends, attitudes and expectations

Express Analysis Economic Activity

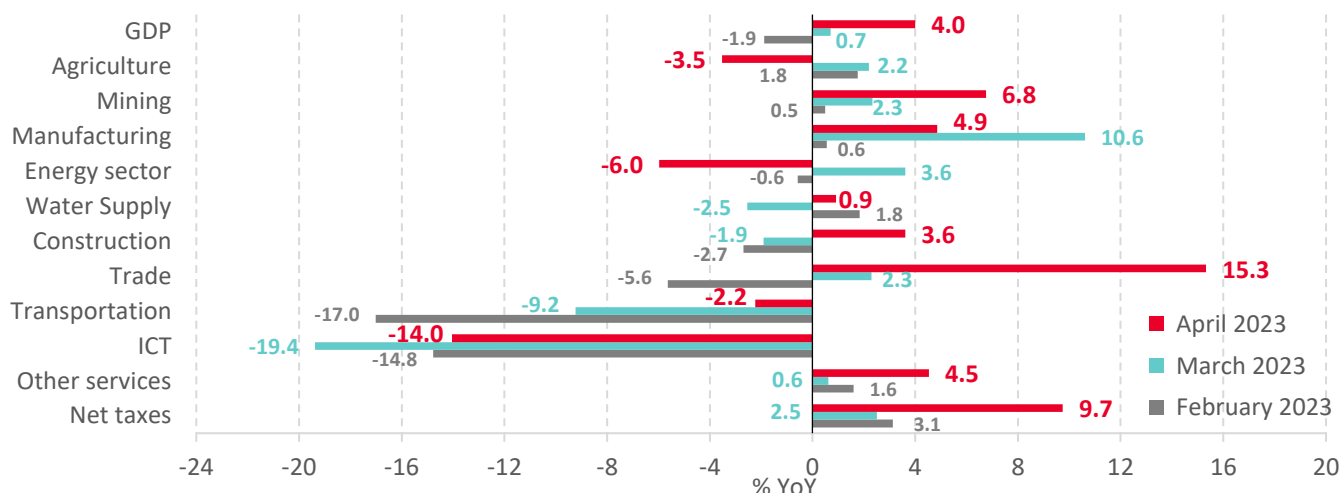
May 2023

Belarus' GDP continued growing in April

In April 2023, the Belarusian economy grew by $\approx 4\%$ versus April 2022 (Figure 1). GDP (seasonally adjusted) increased by $\approx 0.8\text{--}0.9\%$ by March 2023. The economy's adaptation to sanctions leads to a gradual output recovery, but its volume in April 2023 was still below the monthly average value in 2019. The trade sector made the largest contribution to annual GDP growth in April (Figure 2.a). The wholesale segment was supported by increasing exports of potassium, vehicles and, possibly, schemes for re-exporting goods to Russia through Belarus. Retail trade grew significantly due to increased consumer demand amid the continued implementation of a loose monetary policy. The dynamics of industrial production slowed down in April 2023, including due to a large-scale decline in oil refining output, which could be temporary. The weakness of the ICT sector and the reduction in energy generation hampered GDP growth (Figure 1).

In May, annual GDP growth will increase, and the growth rate accumulated since the beginning of the year will be positive. The risks for the sustainability of output dynamics remain high and come both from threats of logistical disruptions and excessive stimulation of domestic demand by monetary and fiscal instruments.

Figure 1. Dynamics of GDP and value added in Belarusian sectors (given month versus the 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.

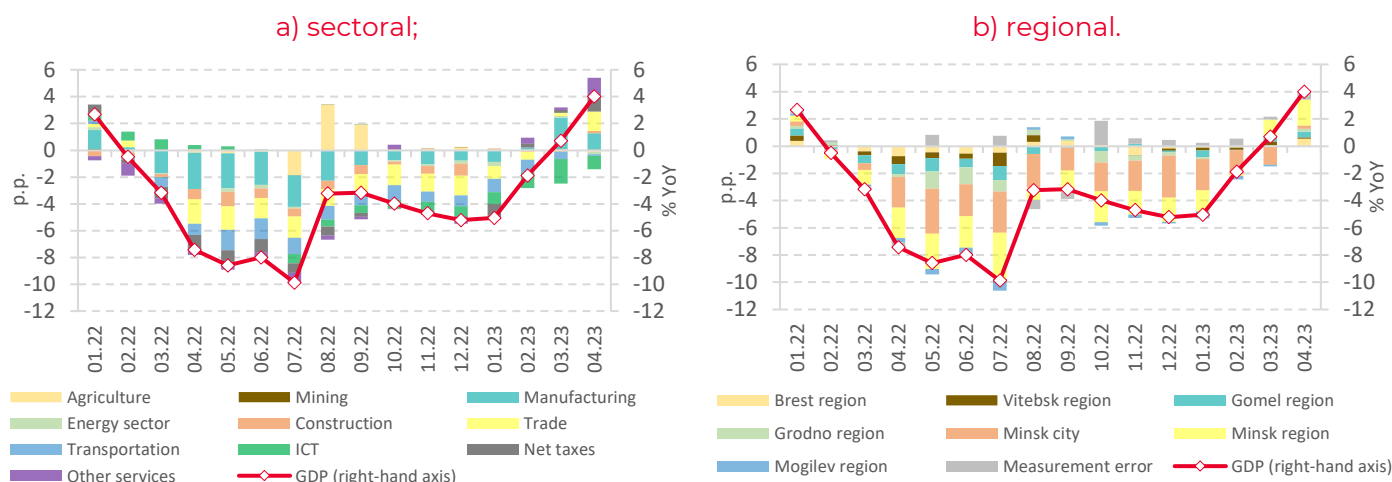
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Value added in the manufacturing sector grew by $\approx 4.9\%$ (YoY) in April 2023 after increasing by $\approx 10.6\%$ (YoY) in the previous month

The contribution of the manufacturing sub-sectors to GDP growth (YoY) fell from ≈ 2.4 p.p. in March to 1.2 p.p. in April (Figure 2.a). Weakening dynamics in the sector was accompanied by a strong reduction in the petroleum products output, as indicated by an output drop in the manufacturing sector (at current seasonally adjusted prices) in Vitebsk region (by almost 10%) and Gomel region (by almost 9%) in April 2023 versus March 2023. The decrease in petroleum products output in the Gomel region has been due to repairs at the Mozyr Oil Refinery, and this is probably temporary. The reasons for the strong fall in the Vitebsk region are not clear, but so far, it seems more appropriate to assume that this is a short-term production decline. At the same time, one should not rule out disruptions in the export supply chains of Belarusian petroleum products.

In Minsk, manufacturing sector fell by about 10% (YoY) in April: perhaps the strengthening of the Belarusian ruble against the Russian ruble weakened price competitiveness of the capital-city-based machine-building enterprises on the Russian market. It also cannot be ruled out that the output in Minsk has reached the ceiling of its production capacity. At the same time, manufacturing sector in the Minsk region grew by over 20% (YoY) in April due to partially recovered potash production and, possibly, due to an increase in automotive output. Moderate production dynamics in April has remained in Brest and Grodno regions, which may support the hypothesis that the growth momentum in the food industry has been fading away, and the nitrogen fertilizers production has been challenged, too. **Stockpiles fell (seasonally adjusted), but remained high in April (Figure 3.a).**

Figure 2. The GDP growth structure in Belarus



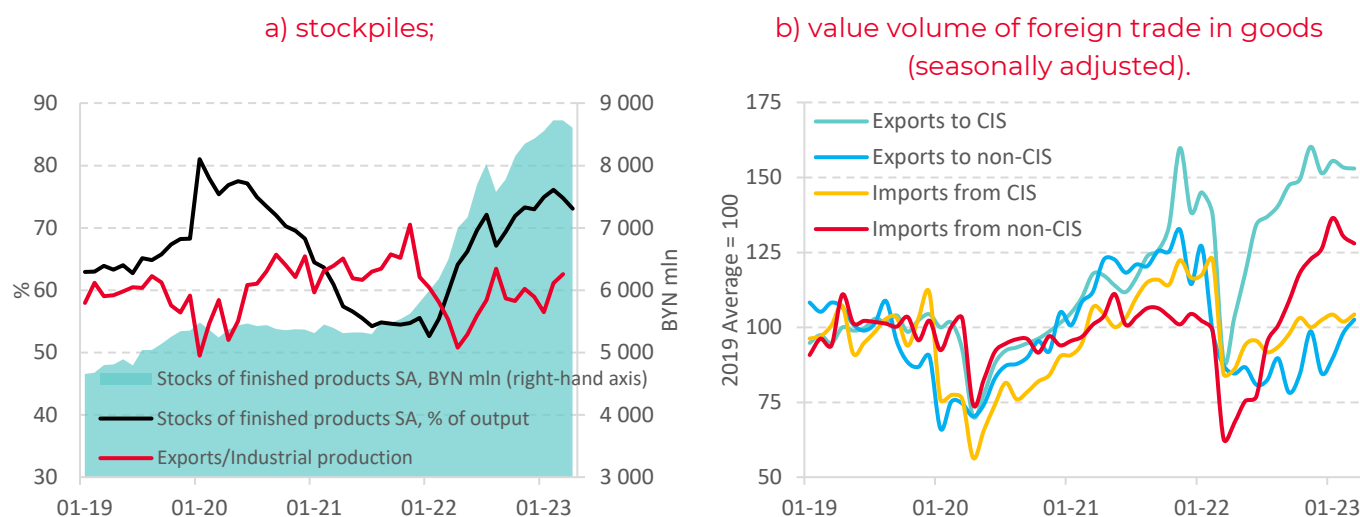
Note: The estimates update once the data are verified. The energy sector includes water supply.

Value added in the trade sector increased by $\approx 15.3\%$ (YoY) in April, thus adding ≈ 1.5 p.p. to annual GDP growth

Increased dynamics were noted in both the wholesale and retail segments of trade. Wholesalers are supported by the restoration of potassium production and the automotive industry. It cannot be ruled out that the wholesale segment also benefits from re-exporting goods to Russia through Belarus (Figure 3.b).

Retail trade showed significant growth (seasonally adjusted) in April, especially in the non-food segment (Figure 4.a). Consumer demand has been increasingly supported by a soft monetary policy, which is reflected in increased retail lending amid lower interest rates, the expansion of lending variety offered by banks, and softer collateral and financial standing requirements to borrowers.¹ Wage growth also stimulates demand for goods, but the impact of wages is largely offset by shrinking employment.

Figure 3. 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.

Expanding consumer demand amid stimulating monetary and fiscal policies translates into growing output of services

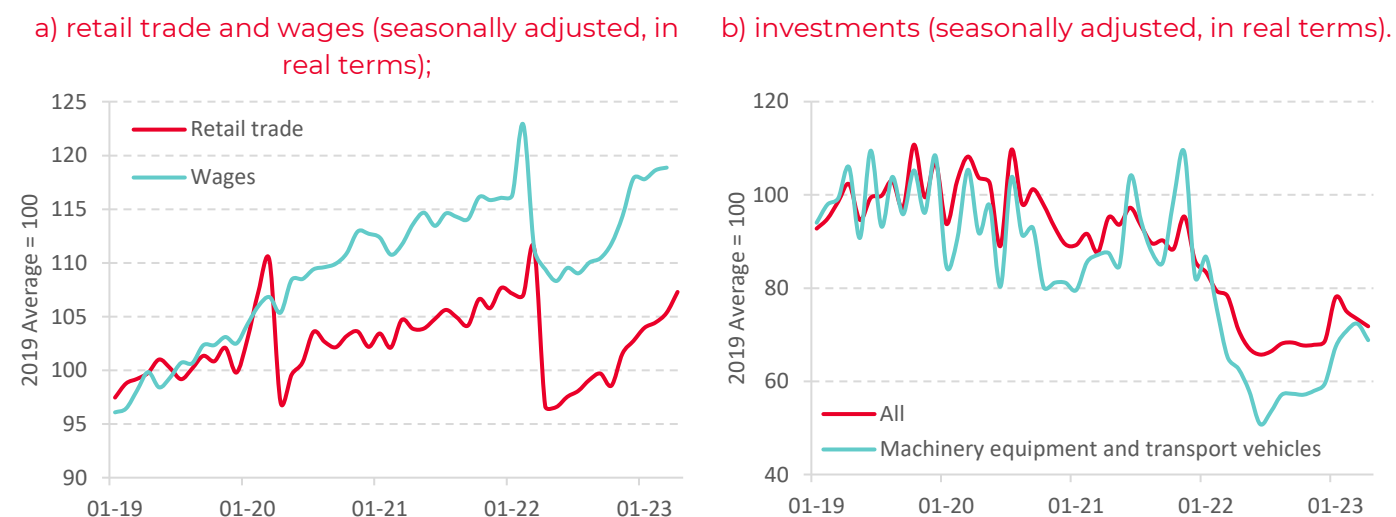
Other services (with the exception of trade, transportation and ICT) added ≈ 1.3 p.p. to GDP growth (YoY) in April: the highest contribution in recent years. As we noted in the previous issue of the Express Analysis, the domestic demand for services may be partially compensatory due to the increased complexity of travelling abroad. At the same time, if the stimulus provided by the domestic economic policy continues, the spinning consumer demand in Q2-2023 / Q3-2023 may lead to GDP exceeding its equilibrium. This situation is fraught with intensifying inflation risks in the second half of 2023 and in early 2024.

Value added in the construction sector increased by $\approx 3.6\%$ (YoY) in April, providing ≈ 0.2 p.p. of annual GDP growth

Growth in the construction sector is still a weak adjustment after a three-year fall in 2020-2022, which was a total drop by almost 23% versus 2019. Despite the adjustment in the construction sector, the volume of investments generally fell in April (seasonally adjusted) versus March due to smaller investments in machinery, equipment and vehicles (Figure 4.b). Investment demand remains weak in the face of suppressed incentives for entrepreneurial activity, and attempts by the authorities to stimulate investment through a loose monetary policy have so far led to a greater increase in consumer demand.

¹ The volume of consumer loans issued (seasonally adjusted) increased by almost 12% in Q1-2023 versus the previous quarter and exceeded the volume recorded in Q4-2021 by almost 26%.

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 (see the Figure: through to March 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.

Positive contributions to annual GDP growth in April were also made by the mining industry (≈ 0.05 p.p.) and net taxes on products (≈ 1.2 p.p.). In terms of taxes, there are likely to be the effects of increasing consumer activity and increasing imports of goods from outside the CIS (Figure 3.b).

The ICT sector took away about 1 percentage point of annual GDP growth in April 2023

Value added in the ICT sector fell by $\approx 14\%$ (YoY) in April after declining by $\approx 19.4\%$ (YoY) in March (Figure 1). The slowdown in the fall largely reflects the effect of last year's baseline: the sector's output began to decline as early as the second quarter of 2022. The scale of the ICT sector decline will continue getting smaller in the coming months, but may remain significant until Q3-2023, after which output is likely to stabilize at a lower level versus the peak of Q1-2022 or recover slightly.

Negative contributions to annual GDP growth in April were also made by the sectors of energy (≈ 0.2 p.p.), agriculture (≈ 0.1 p.p.), and transport (≈ 0.1 p.p.). Energy production may have decreased due to warm weather: the average ambient temperature in April 2023 was 1°C above the climatic norm, while a year earlier it was 2.1°C lower the climatic norm. The reduction in transit traffic continues to have a negative impact on the transport sector. At the same time, the rate of decline in this sector has been decreasing (Figure 1), including due to the adjustment of sales chains for Belarusian goods.

Performance of the agricultural sector looks amazing in April 2023. Thus, according to the National Statistical Committee of Belarus (Belstat), agricultural value added increased by 0.9% (YoY) in four months, while production increased by 3.7% (YoY). At that, Belstat reported an increase in production by 6% (YoY) in April, and value added, according to our calculations based on the Belstat data, fell by 3.5% (YoY). Such large discrepancies may indicate either an increase in the depth of processing agricultural raw materials (which will lead to an increase in agricultural output, but the value added will be transferred to the food industry in large quantities) or a retrospective revision of the value added data by Belstat.