Belarus Economy Monitor:
trends, attitudes and expectations

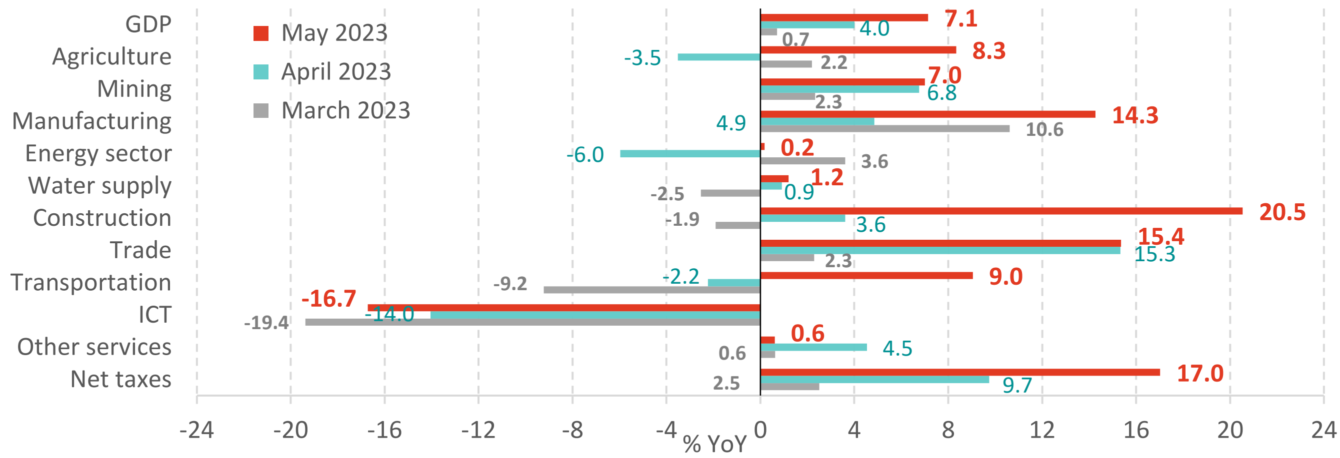
Express Analysis
Economic activity and inflation

June 2023

The Belarusian economy could overheat in the context of continued monetary stimuli in May

Over the five months of 2023, Belarus's GDP increased by 0.9% (YoY) and by ≈7.1% (YoY) in May only (Figure 1). Economic activity remained on a growth trajectory: the volume of seasonally adjusted GDP rose by ≈1.2% compared to April 2023 and it was slightly more than 1% higher than its monthly average in 2019. The high growth rate of the economy in recent months has been supported by significant strengthening of domestic demand fueled by loose monetary policy. Investment activity is still noticeably weaker than in the pre-war period (Figure 4.b), but consumer demand has exceeded the pre-war level in both services and goods (Figure 4.a). It is likely that the Belarusian economy is entering a state of overheating in the context of incomplete adaptation to the sanctions environment and artificially suppressed inflation. An indicator of overheating can be further dynamics of inflation in non-regulated services (Figure 5.c), which in recent months has noticeably exceeded 10% (MoM) (seasonally adjusted annualized monthly growth). At the end of the first half-year, GDP growth will amount to 1.5–2% (YoY) and may exceed the April forecast of 2.5% by the end of 2023, however, this will happen at the cost of a larger-than-expected imbalance in supply and demand.

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.

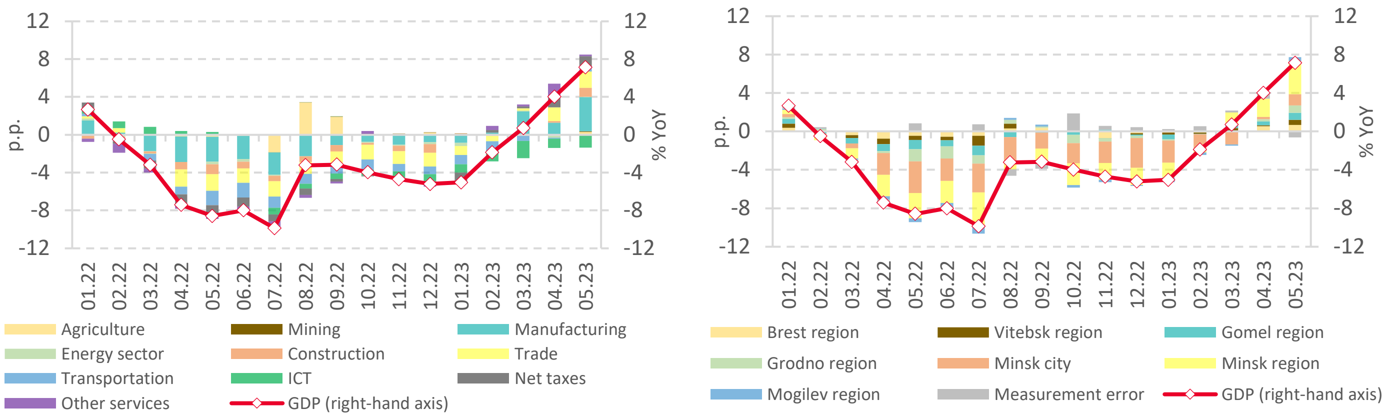
The value added in the manufacturing industry grew by ≈14.3% (YoY) in May 2023, thus adding ≈3.6 p.p. to annual GDP growth (Figure 2.a).

The May output (seasonally adjusted) increased versus the April output; however, it was slightly lower than the local peak value of the March 2023 output. The growth of manufacturing industry is associated with the output recovery in the Vitebsk region. This may signal that the April decline in oil refining at Naftan was temporary. In the Gomel region, output recovery was not observed in May. Repairs at the Mozyr Oil Refinery must have continued limiting petroleum product output, which had a dampening effect on the overall performance of the manufacturing industry in Belarus.

The growth in the output of manufacturing industries remained in the Minsk region in May (seasonally adjusted to the previous month), but it was slower compared to the beginning of the year. It is likely that the automotive industry maintained its positive output trend, while the production of potash fertilizers stagnated after recovering to about 70% of the pre-crisis output volumes. In May, some output recovery was also noted in Minsk, while production stagnated in the Brest and Grodno regions. Probably, the strengthening of the Belarusian ruble against the Russian ruble, as well as the difficulties with the rapid expansion of production capacities, hold back the output dynamics in the machine building and food industries. **Stockpiles continued declining gradually (seasonally adjusted) in May, but remained high** (Figure 3.a).

Figure 2. The GDP growth structure in Belarus

a) sectoral; b) regional.



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

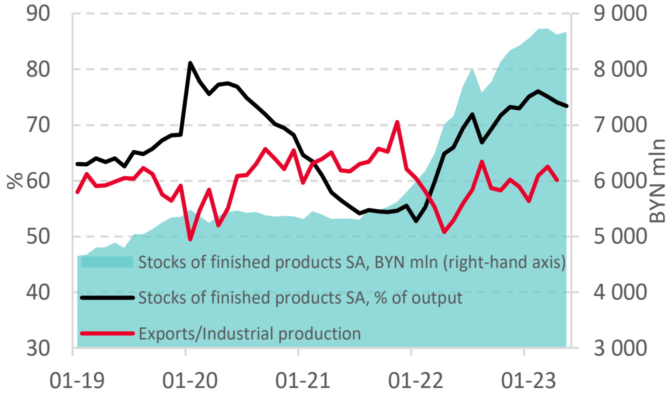
The value added in the construction sector grew by ≈20.5% (YoY) in May 2023, thus adding ≈1 p.p. to annual GDP growth (Figure 2.a).

A sharp increase in the construction sector was mainly due to the low baseline in May 2022, when the sectoral output fell by 20.8% (YoY). At the same time, investments in construction also slightly increased (seasonally adjusted) compared to April. In general, investments increased markedly in May 2023 mainly due to capital investments in equipment, machinery and vehicles (Figure 4.b). Increasing affordability of loans and, perhaps, non-market investment stimuli contributed to strengthening investment activity in May; however, the investment volume was still noticeably below its pre-war levels (Figure 4.b).

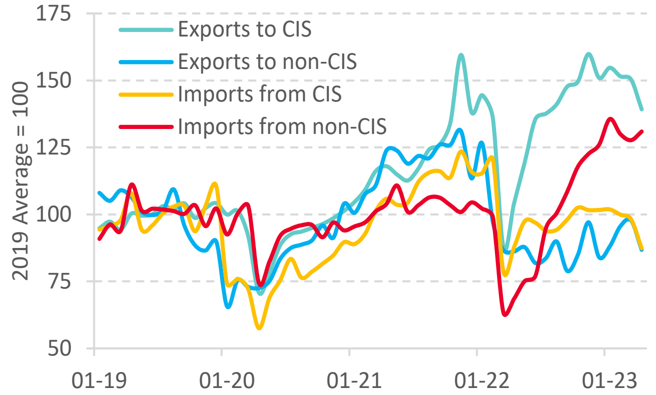
It cannot be ruled out that the launch of the second power unit of the Belarusian NPP could also have facilitated the sharp increase in investments in May 2023. In general, fixed capital investments are characterized by higher volatility, and they are likely to adjust in the construction sector inter alia in the coming months.

Figure 3. Dynamics of stockpiles and foreign trade in goods

a) stockpiles;



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



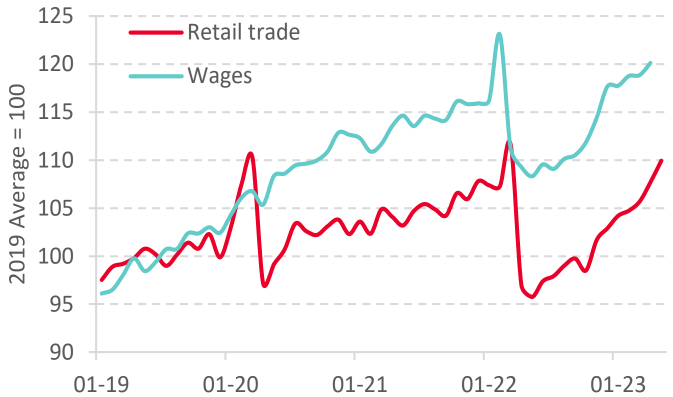
Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

The value added in the trade sector grew by ≈15.4% (YoY) in May 2023, thus adding ≈1.7 p.p. to annual GDP growth (Figure 2.a).

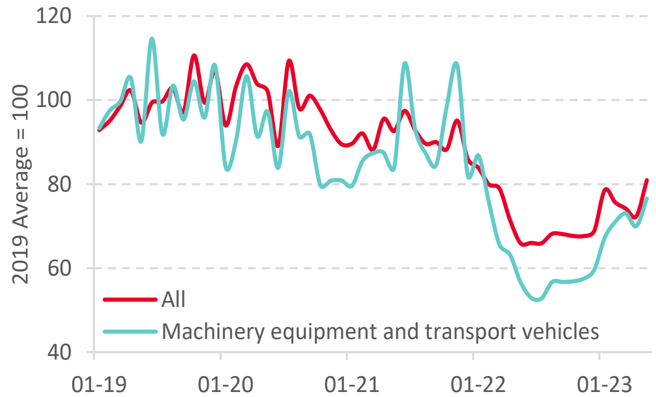
A significant growth in the trade sector in May was observed in the retail sub-sector, where the sales volume (seasonally adjusted) exceeded its pre-war values (Figure 4.a). Consumer demand has significantly increased in recent months in the context of recovering from the shock in early 2022, notable easing in credit terms and rising wages amid a likely labor market shortfall. The consumer activity dynamics may signal that the economy is about to overheat considering the demand for services, which is significantly higher than prior to the war, and it continues growing.

Figure 4. Retail trade and investment dynamics

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



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



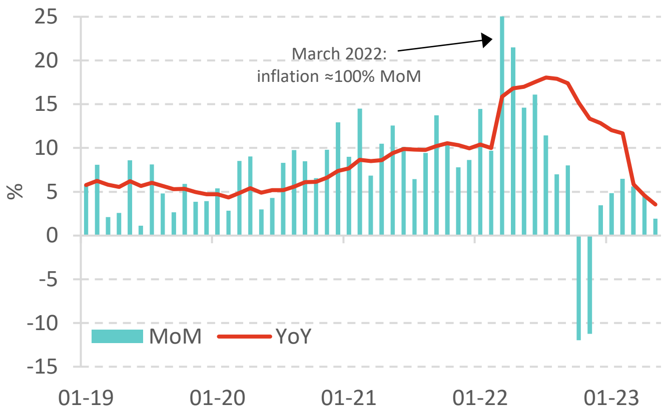
Note: The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage (see the Figure: through to April 2023) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators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

Excessive domestic demand stimulation raises inflationary risks despite temporary lower inflation

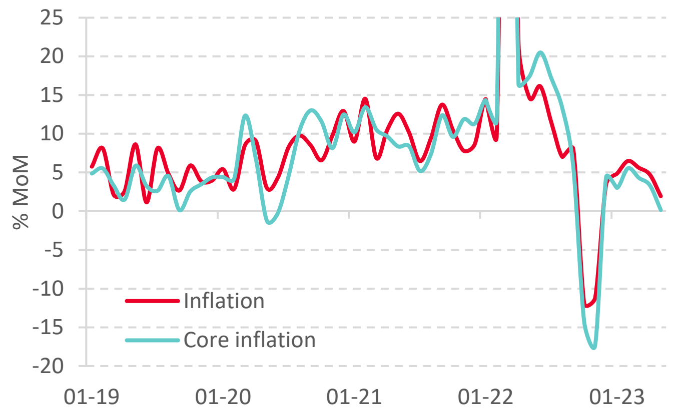
Consumer prices remained practically unchanged (seasonally adjusted) in May, and annual inflation fell to its historical low of 3.7% (YoY) (Figure 5.a). Low inflation is associated with subdued price growth in the goods segment, while steadily higher inflation is observed in services (Figure 5.c). At that, non-regulated services have been becoming more expensive at a particularly fast rate of over 10% (MoM) (seasonally adjusted annualized growth). Such a discrepancy in the dynamics of prices for goods and non-regulated services may indicate the pro-inflationary impact of increased consumer demand, which is restrained in the goods segment by temporary factors: the effect of government decree No. 713 and/or adjustment of the supply chains delivering goods into the country. At the same time, it cannot be ruled out that accelerated inflation in services is compensatory, and this is explained by the equalization of relative prices: goods became more expensive than services in the spring of 2022 (Figure 5.d). This process was close to completion in May; therefore, continued inflation dynamics in non-regulated services can be considered as an indicator of overheated economy.

Figure 5. Inflation dynamics in Belarus

a) overall inflation;

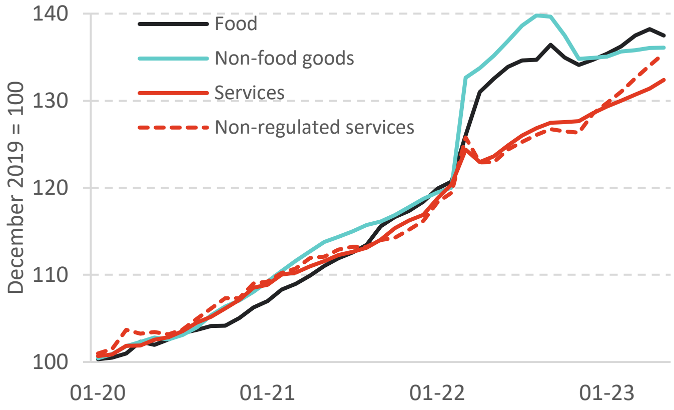


b) overall and core inflation (SA);



c) inflation of CPI components (SA);

d) price levels of CPI components (SA).



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.

Although annual inflation will fall below 3% (YoY) in June and possibly below 2% (YoY) by September, the government of Belarus faces a difficult choice.

Achieving planned GDP growth requires large-scale economic stimuli, thus creating price pressures restrained by state regulation. All this happens against the backdrop of an incomplete adaptation of the economy to operating in the new environment, and curbing inflation can slow down this process. Both the tightening of economic policy and the exit from strict price regulation may be accompanied by a severe shock to the economy, while the delay in these processes will accumulate imbalances.

The transport sector added ≈0.5 p.p. to annual GDP growth in May 2023, but the sectoral dynamics remained weak.

The ≈9% (YoY) rise in the value added of the transport sector in May 2023 (Figure 1), after falling by ≈27.1% (YoY) in May 2022, can be seen as a slight adjustment after an initial shock. Cargo transportation remains in a state of decline amid transit restrictions and challenges in recovering pre-crisis potash output: cargo turnover remains more than 40% below the May 2021 value. The transport sector was supported by a high demand for services from the population, which, among other things, was reflected by an increase in passenger turnover by 10.7% (YoY) in May (+10.9% versus May 2021).

Positive contributions to annual GDP growth in May were also made by the agricultural sector (≈0.3 p.p.), mining sector (≈0.07 p.p.), and other service sectors (except the sectors of trade, transport and ICT) (≈0.2 p.p.), and net taxes on products (≈1.2 p.p.).

The ICT sector became the only integrated sector of the economy, where an annual decline in value added was recorded in May 2023: it decreased by ≈16.7% (YoY).

As a result, the sector removed ≈1.4 p.p. from the annual GDP growth in May (Figure 1). The decline scale will be significant until Q3-2023, after which the sectoral output is likely to stabilize at a lower level or it may recover slightly.