Belarus Economy Monitor:
trends, attitudes and expectations

Express Analysis

Economic activity and inflation

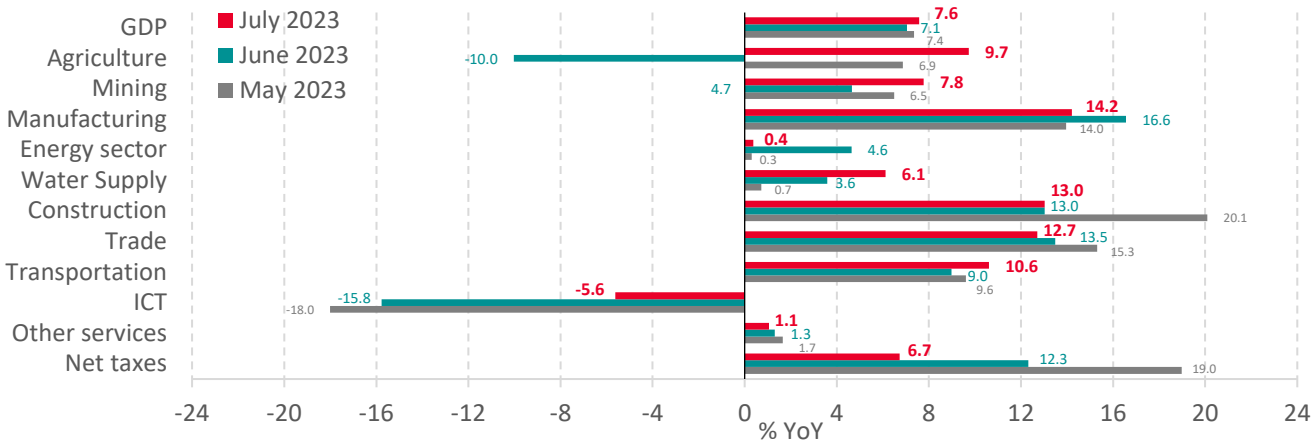
August 2023

Belarus' GDP is losing its growth momentum

GDP grew by 2.9% (YoY) over the seven months of 2023, including a ≈7.6% growth (YoY) in July 2023 (Figure 1). High annual growth rates reflect the earlier success of households and businesses in adapting to operating in new realities, the effects of loose monetary policy, and the temporary positive impact of an earlier launch of the harvesting campaign compared to 2022 (Figure 2.a). The agricultural sector will start restraining the GDP dynamics in August already due to a noticeable shortfall in grain crop yields in 2023.

Despite the high annual GDP growth rates, the growth momentum of the Belarusian economy has been fading: the GDP volume (seasonally adjusted) decreased by ≈1–1.2% in July 2023 compared to June 2023. The decline is explained by a downward adjustment in domestic demand after its rapid growth in the first half of the year and a likely weakening of exports' dynamics. If the dynamics of the seasonally adjusted GDP volume remain weak in the coming months, this will testify in favor of the fact that — thanks to broad monetary stimulus — output in the first half of the year exceeded its equilibrium, and now it abuts the production capacity ceiling. Continuing excessively loose monetary policy in this environment will express itself not so much in an output growth, but in the accumulation of inflationary pressure.

Figure 1. Dynamics of GDP and value added in Belarusian sectors (given month versus the corresponding month of the previous year: %, YoY)



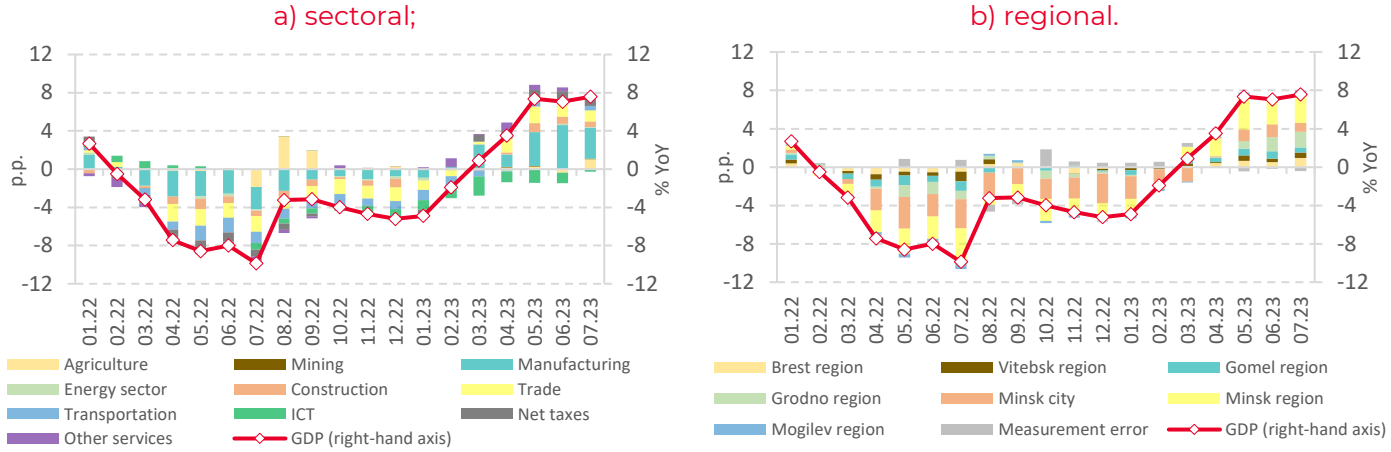
Note: The indicator dynamics updates once new data are published.

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

The value added in the agricultural sector increased by ≈9.7% (YoY) in July, thus adding ≈1 p.p. to annual GDP growth (Figure 2.a)

The high annual growth of the agricultural sector is explained by uneven harvesting campaigns in 2022 and 2023. It started earlier this year, and the gross harvest of grain and leguminous crops exceeded the last year's level by 5.4% as of August 1, 2023. At the same time, the grain yield in 2023 is noticeably lower than last year: it is lower by 7.8% (versus 2022) as of August 1, 2023 (estimated using the Belstat data) and by ≈10% (versus 2022) as of August 21, 2023 (estimated using the data from the Ministry of Agriculture and Food). Due to lower yields, the 2023 gross grain harvest is highly likely to be significantly smaller than in 2022. As a result, we can expect a decrease in the value added in the agricultural sector in August versus August 2022, which will have a restraining effect on the GDP dynamics. At that, it should be noted that despite the strong lag behind 2022, the 2023 grain yield remains slightly higher compared to the average grain yields in the last five years.

Figure 2. The GDP growth structure in Belarus



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

The value added of the manufacturing sector rose by ≈14.2% (YoY) in July, adding ≈3.3 p.p. to annual GDP growth (Figure 2.a)

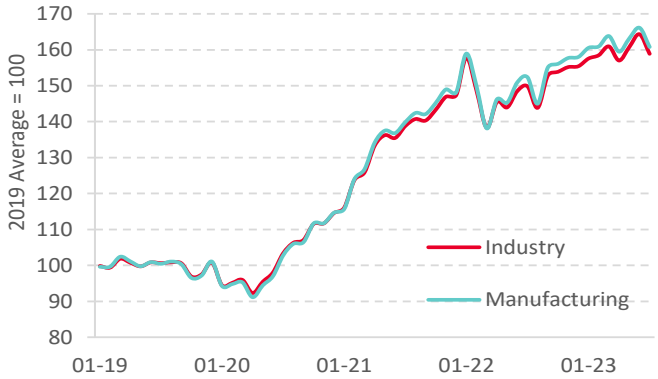
Maintaining positive annual growth rates is explained by the successful adaptation to new operating conditions throughout the year. At the same time, the impulse of increased output continued fading in July. Thus, the nominal output of the manufacturing sector (seasonally adjusted) decreased in July compared to June (Figure 3.a) with near-zero dynamics of producer prices. In July, an output decrease was recorded in Minsk city, Vitebsk, Grodno, Minsk and Mogilev regions, while production stagnated in Brest and Gomel regions. Dynamics of the manufacturing sector may reflect a gradual weakening of export support from external demand and the exchange rate of the Belarusian ruble, as well as a possible reaching the ceiling of effective output expansion under current technological, capital and labor impediments. The scenario of stagnating industrial production will probably implement until the year-end. Satisfying domestic demand stimulated by loose monetary conditions in the face of production constraints will lead to higher production costs, increased inflationary pressures and, probably, maintaining high volumes of imports. At that, the volatility of industrial output may grow in August-September due to repairs at the Naftan State-Owned Oil Refinery.

Industrial inventories have been declining versus industrial output for five consecutive months (seasonally adjusted)

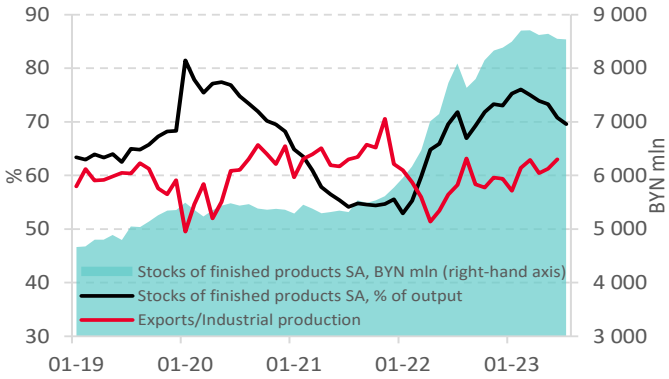
Decreasing inventories (Figure 3.b) amid a stronger domestic demand in Belarus and Russia in 2023 may indicate that Belarusian enterprises have enjoyed a favorable context to unload their stockpiles to some extent.

Figure 3. Dynamics of industrial output and inventories

a) nominal industrial output (seasonally adjusted)



b) industrial inventories



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 construction sector slowed down in July, which caused a decrease in investment in fixed assets (Figure 4.b)

Investment in construction and installation works decreased in July compared to June (seasonally adjusted; Figure 4.b). A significant and sustained build-up in the construction sector is challenged in the context of a tight labor market and limited domestic production capacity. It cannot be ruled out that the construction sector will grow in the rest of the year due to administrative non-market interventions, but sustainability of this growth will not be obvious. Investment in equipment, machinery, and vehicles increased in July (Figure 4.b); it was supported by loose monetary conditions and the need to engage additional capital (or to refresh it) to meet strong demand.

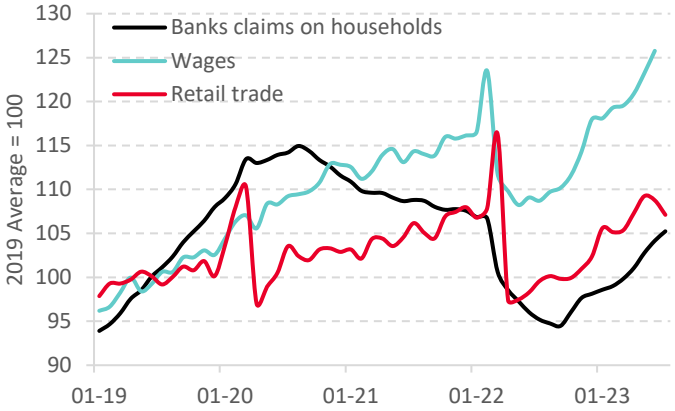
The value added dynamics in the trade sector continued slowing down: ≈12.7% (YoY) in July following ≈13.5% (YoY) in June

Retail turnover (seasonally adjusted) decreased in July versus June despite the high growth in household lending and wages (Figure 4.a). It was possible that the rapid recovery in consumption since the beginning of this year led to an excessive pent-up demand for goods, which was reflected in an adjusted decline in retail turnover in June-July. Nevertheless, it is too early to draw conclusions about the breaking trend of growth in consumption of goods, especially given the increased availability of lending and higher household incomes.

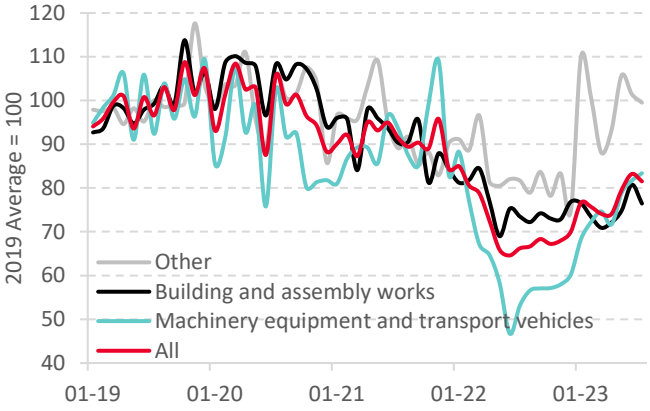
Loan easing and wage growth continued to support consumption of services as indirectly indicated by the expansion of seasonally adjusted output of catering and value added of other services (excluding trade, transportation, ICT). As a result, aggregate consumption of goods and services remained high in July, although it adjusted slightly from its June level. In the rest of the year, loose monetary policy and wage growth will support consumer demand; however, due to the limited ability of supply to adjust to increased demand, its dynamics may weaken compared to the first half of the year.

Figure 4. Retail trade and investment dynamics

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



b) investment (seasonally adjusted, in real terms)



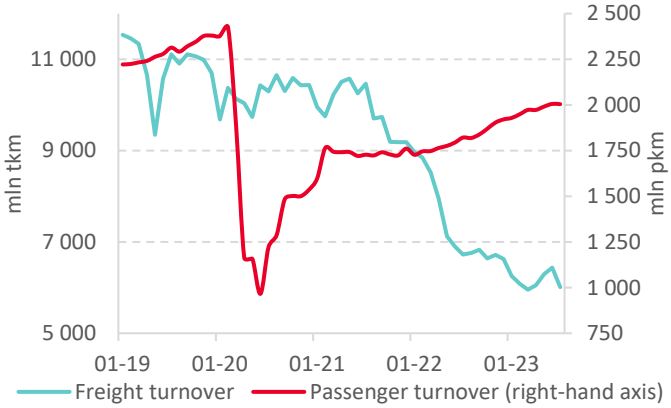
Note: The real volume of retail trade has been calculated by deflating the nominal retail trade volume by the Consumer Price Index for food and non-foods. Real wage (see the Figure: through to June 2023) has been calculated by deflating the nominal wage by the Composite Consumer Price Index. The indicators of real investment have been calculated by deflating the nominal investment by the Investment Goods Producer Price Index. Seasonal adjustment was made by using the X13 and TRAMO/SEATS procedures in the JDemetra+ software application. The indicator dynamics updates once new data are published.

The value added of the transportation sector grew by ≈10.6% (YoY) in July 2023 due to the passenger transportation subsector

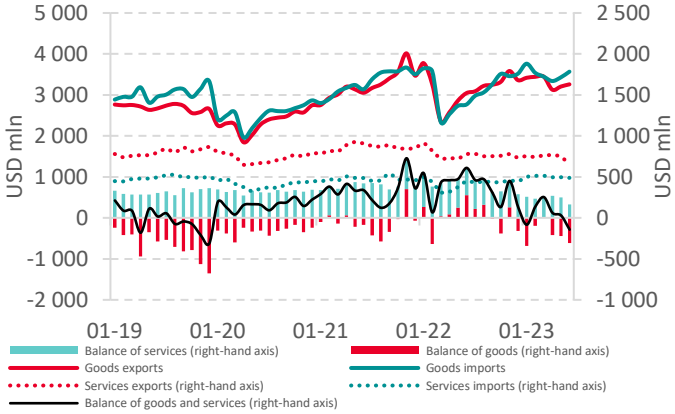
Passenger turnover in July was more than 16% higher than the average monthly turnover in 2021 (seasonally adjusted; Figure 5.a). The dynamics of the indicator was largely related to the lengthening of trips, as the number of passengers stagnated. Freight traffic remained in a downturn, which could reflect weak transit traffic. Cargo turnover decreased in July and was close to its local lows: almost 40% below the average monthly value in 2021 (seasonally adjusted; Figure 5.a). The dynamics of cargo turnover may remain weak in the near term amid a likely fading momentum for the growth of exports of goods (Figure 5.b) and industrial production.

Figure 5. Dynamics of transport and foreign trade indicators (seasonally adjusted)

a) transportation turnover (seasonally adjusted)



b) foreign trade values (seasonally adjusted)



Note: Seasonal adjustment was made by using the X13 and TRAMO/SEATS procedures in the JDemetra+ software application. The indicator dynamics updates once new data are published.

The value added of the ICT sector decreased by ≈5.6% (YoY) in July after falling by 15.8% (YoY) in June

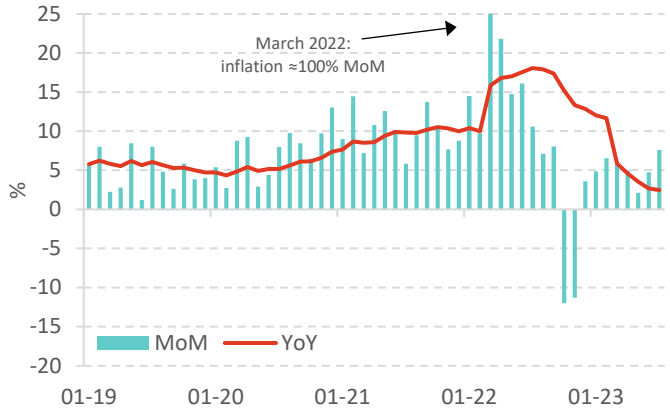
The negative contribution of the sector to annual GDP growth decreased to ≈0.3 p.p. in July versus ≈1.1 p.p. in June. The slowdown in the annual decline rate in the sector was due to the low baseline in 2022: the ICT sector output dropped in Q3-2022. The nominal value added of the ICT sector (seasonally adjusted) decreased by over 4% versus June. This may indicate continued stagnation in the sector, which has also reflected in weaker service exports (Figure 5.b).

Inflation accelerated in July due to volatile components and the components that were directly regulated by the government

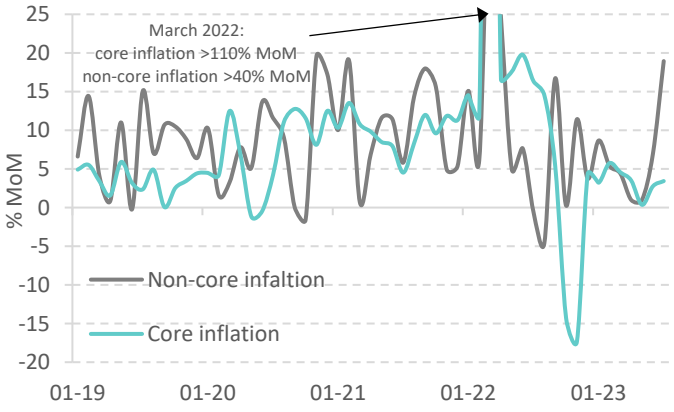
Annualized monthly inflation (seasonally adjusted) increased to ≈7–8% (MoM) in July, which was almost twice as high as in June (Figure 6.a). Inflation accelerated mainly due to higher growth rates of regulated prices and higher prices of fruits and vegetables (seasonally adjusted): taken together, they shaped non-core inflation (Figure 6.b). The rise in the price of fruits / vegetables and tobacco products (attributed to non-core inflation) caused a noticeable acceleration in inflation of food products (Figure 7.a).

Figure 6. Inflation dynamics in Belarus

a) overall inflation;



b) core and non-core inflation (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.

Some concerns are caused by an increase in the growth rate of prices for poultry and poultry semi-finished products in July (up to ≈18% and ≈15% (MoM) in annualized terms, seasonally adjusted) amid a decreasing number of chickens in agricultural enterprises by 11.3% (YoY), including by 33.8% (YoY) in Vitebsk region, by 11.1% (YoY) in Gomel region, by 14.4% (YoY) in Mogilev region (estimates based on the Belstat data). Decreasing livestock numbers do not look extraordinary yet; however, one cannot exclude a negative impact of the epizootic situation, which has pro-inflationary risks.

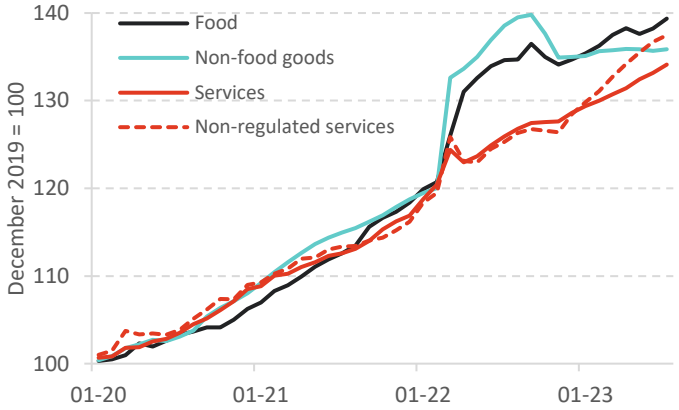
Core inflation remained low in July mainly due to weak growth in non-food prices (Figure 7.a). The blanket price control by government continues; this, together with a significant strengthening of the Belarusian ruble against the Russian ruble, has prevented the transfer of pressures from domestic demand and the labor market, which have increased this year, to the prices for goods. Inflation in non-regulated services slowed to ≈7% (MoM) in July (Figure 7.a). Decreasing price growth rate of non-regulated services was mainly impacted by decreasing inflation in such services' segments as sanatoriums, tourism and healthcare, which could be explained by the significant strengthening of the Belarusian ruble against the Russian ruble.

The lag in the price dynamics between non-food products and food products and non-regulated services has been getting more and more vivid in recent months (Figure 7.b). This creates the prerequisites for an accelerated rise in the price of non-foods if the price control policy becomes loose. At that, even if the blanket price controls exercised by the government continues, an inflation increase to 5–7% (YoY) should be expected in Q4-2023 already due to rising costs for producers of goods and services amid an overheated domestic demand and a tense labor market. Limiting the negative inflationary effects requires tightening monetary policy by turning it from an overly stimulating state to a neutral state.

Figure 7. Inflation dynamics of the consumer basket components in Belarus

a) inflation components (SA);

b) price levels of inflation components (SA).



Note: MoM (month-on-month) is a seasonally adjusted annualized monthly growth rate versus the previous month. SA is a seasonally adjusted indicator.