**Belarus Economy Monitor:**
**trends, attitudes, and expectations**

**Express Analysis**
Economic Activity and Inflation

September 2024

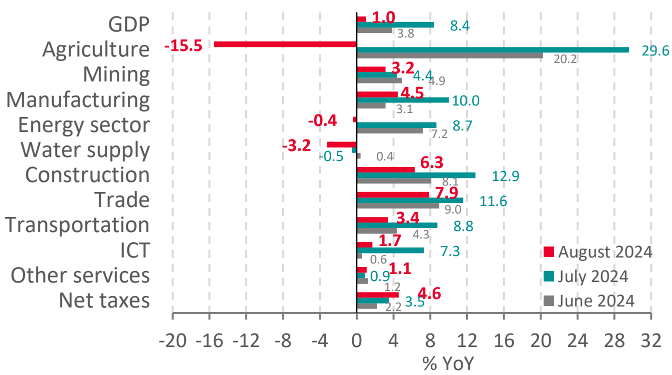
# GDP of Belarus contracted in August, hit by volatility in agricultural production and oil refining

*GDP grew by 4.9% YoY in January–August 2024 and by ≈1% YoY in August alone, following an increase of ≈8.4% YoY in July (Figure 1.a). GDP (seasonally adjusted) contracted by ≈3–4.5% in August versus July after a brief uptick in the previous month (Figure 1.b). Output fluctuations in the 2024 summer months were largely determined by uneven grain harvesting in 2023 and 2024. At the same time, the GDP volume in August fell even below the levels of April-June 2024, which was probably due to the continuing problems in oil refining due to the bad weather in July.*

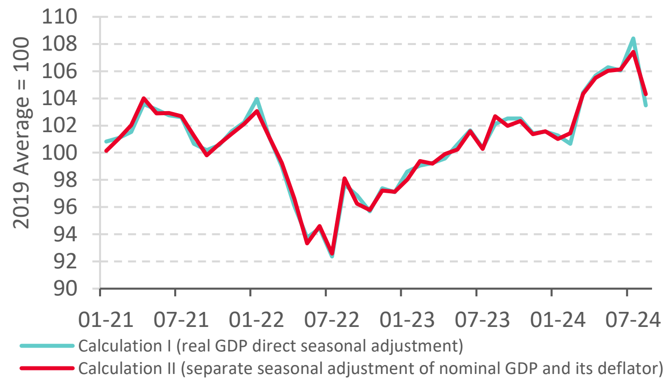
*Overall, it is increasingly likely that even in an environment of increased consumer demand, producers find it difficult to maintain high rates of output growth due to a lack of spare capacity, labor shortages, increasingly complex supply logistics, and excessive government interventions. The Belarusian economy is expected to slowly “cool down” in the absence of heavy external shocks, weakening demand dynamics in Russia, maintaining domestic budget stimulus, and close to neutral monetary conditions. This will correspond to GDP growth in the range of 4–5% by the end of 2024 and its slowdown to the range of 0–2% in 2025.*

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

a) GDP growth, given month versus the corresponding month of the previous year (%, YoY)




b) GDP volume in constant prices (seasonally adjusted)



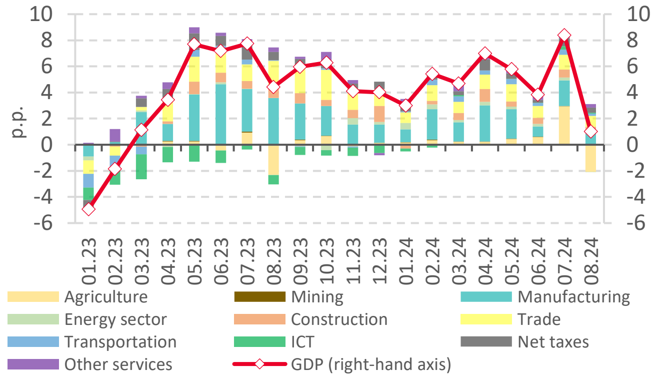

**Note:** The estimates update once the data are verified. Monthly GDP data are estimates, and they should be treated with caution.

**Agriculture had a strong negative impact on annual GDP growth, taking away about ≈2.1 p.p. from it in August after adding ≈2.9 p.p. to it in July** (Figure 2.a)

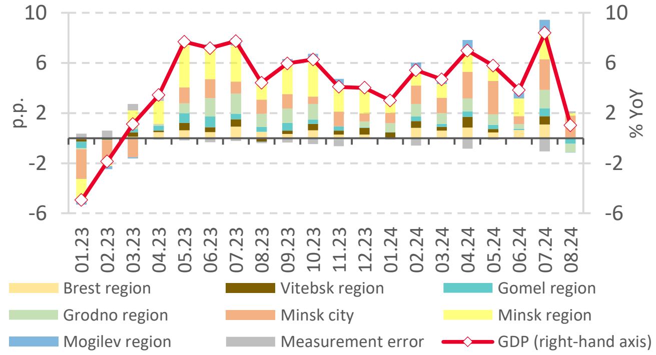
Agricultural value added fell by ≈15.5% YoY in August after growing by ≈29.6% YoY in July (Figure 1.a). Due to the early start of the harvesting campaign, the grain harvest, compared to last year, was significantly higher in June-July and much lower in August (by 45.8% YoY in August alone). As a result, the gross harvest of grain and leguminous crops in agricultural organizations amounted to 6.47 million tons as of September 1, 2024, which was 6.2% higher than last year. This growth was achieved solely due to larger sown areas in 2024, as grain yields were slightly lower than in 2023: they were close to their average values in recent years (Figure 3.a).

Figure 2. Structure of GDP growth in Belarus (given month compared to the corresponding month of the previous year: %, YoY)

a) sectoral



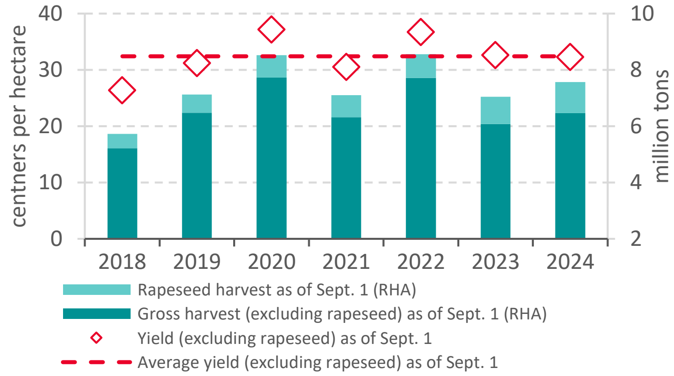

b) regional



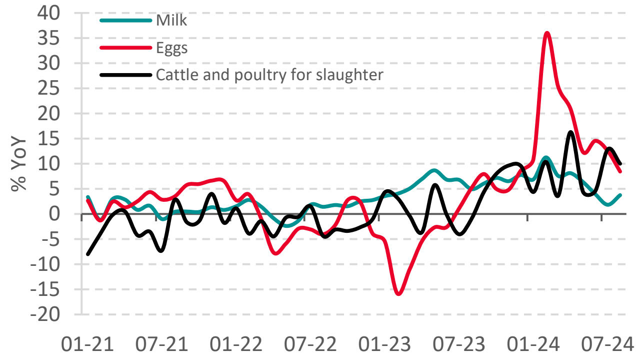

**Note:** The estimates update once the data are verified. The energy sector includes the water supply subsector.

Figure 3. Agricultural indicators

a) harvest of grain and leguminous crops (excluding corn)




b) livestock product output in agricultural organizations




**Value added growth in industry decreased from ≈9.4% YoY in July to ≈3.8% YoY in August, and its contribution to annual GDP growth decreased from ≈2.2 p.p. to ≈1.0 p.p.** (Figure 2.a)

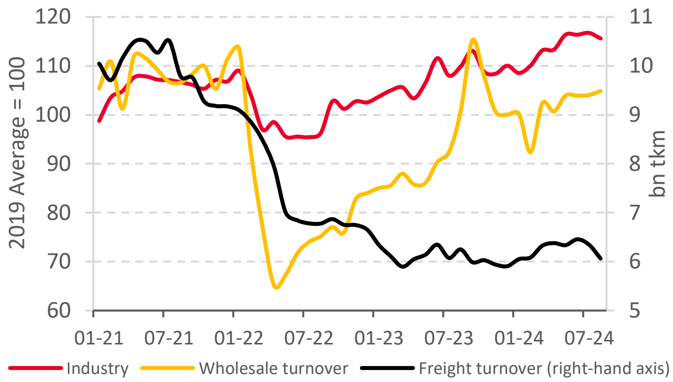
Seasonally adjusted industrial output fell by ≈1% in August vs. July (Figure 4.a). Manufacturing output declined in the Vitebsk and Gomel regions, reflecting temporary problems with oil refining due to the impact of weather conditions. There was no growth in manufacturing in Minsk and Mogilev region. It is likely that civil engineering at least did not increase output. Industries related to the military-industrial complex were able to maintain high production volumes, but they were unlikely to increase them. Output in the Grodno region decreased in August, which may reflect the volatility of nitrogen fertilizer production. Production increased in the Brest and Minsk regions probably due to the food complex and potash fertilizers.

Overall, industrial production showed no growth in the summer of 2024, and inventories stopped declining rapidly (Figure 4.b). This manifested in the subdued dynamics of wholesale trade and cargo turnover, which significantly decreased in August (Figure 4.a). It is increasingly likely that input constraints (labor shortages, difficulties with supplies and their financing) aggravate the restraining effect on industrial output, which is superimposed on the gradual slowdown of the economy in Russia, which is the main export market.

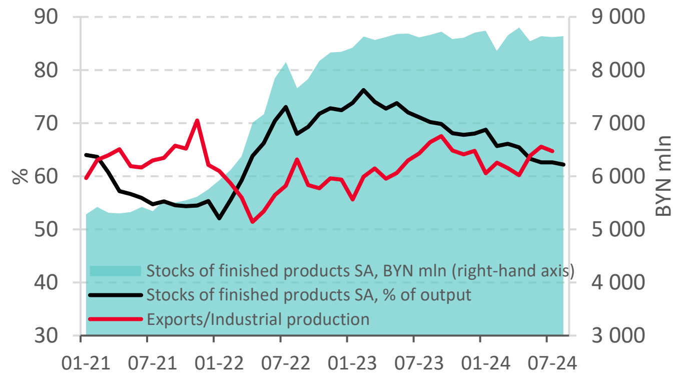
**Value added growth in the information and communication sector slowed down from ≈7.3% YoY in July to ≈1.7% YoY in August** (Figure 1.a). **The ICT sector recession ended at the beginning of this year, but the sector has been recovering at a moderate pace**

Figure 4. Dynamics of industrial output, wholesale trade and transport freight turnover

a) real output in manufacturing industry (SA), wholesale trade (SA) and freight turnover (SA)




b) industrial stockpiles, and the ratio of goods exports to output




**Note:** SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal 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.

**Investments in August fell by more than 1% versus July** (seasonally adjusted)

Both investments in machinery, equipment and vehicles and the volume of civil works have decreased (Figure 5.b). After a surge in the spring months, investment dynamics have slowed down, and their volume fluctuates around the average level of 2021. A negative impact on investment activity could be caused by high growth in labor costs against the backdrop of strict price controls in the domestic market and falling export prices. In addition, the shortage of workers and the increasingly complex supply chains limit the ability to rapidly expand production capacity and housing construction volumes even in the face of increased demand for it.

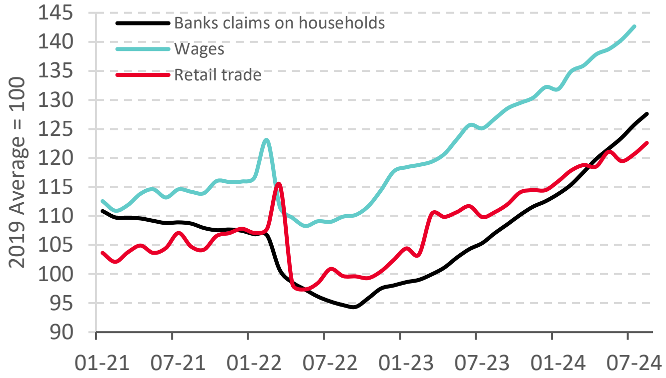
**Consumer demand for goods increased in August**

Retail turnover grew by more than 1% verus July (seasonally adjusted). The volume of household consumption of goods has updated its historical maximum level, exceeding the average level of 2021 by almost 17% (Figure 5.a) and by more than 26% in case of non-food products alone. The National Bank's "sluggish" actions are not enough to cool the overheated demand for goods in the environment of budget stimulus and significantly increased household incomes: retail loans remained accessible to households, and retail lending grew rapidly in August (Figure 5.a). The transmission of the impulse from the increase in interbank lending rates and the National Bank's overnight loan rate will increase towards the end of the year, but this will not make the cost of credit resources restrictive unless the regulator takes additional actions.

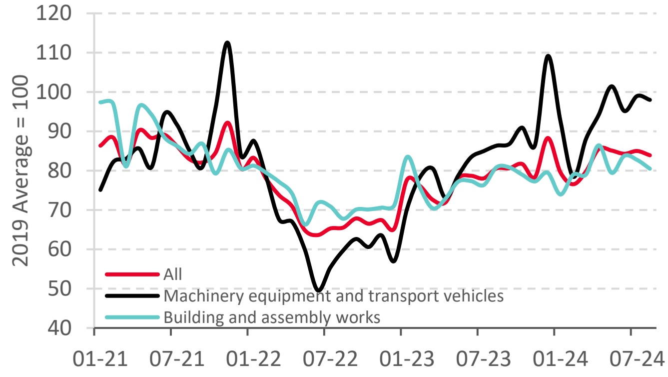
There are quite high risks that the current values of prudential limits on the population's credit burden underestimate the over-optimism of households and the likelihood of a significant slowdown in wage growth in 2025–2026. A strong economic slowdown in such an environment could lead to complications with servicing and repaying loans in the medium term.

Figure 5. Retail trade and investment dynamics

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



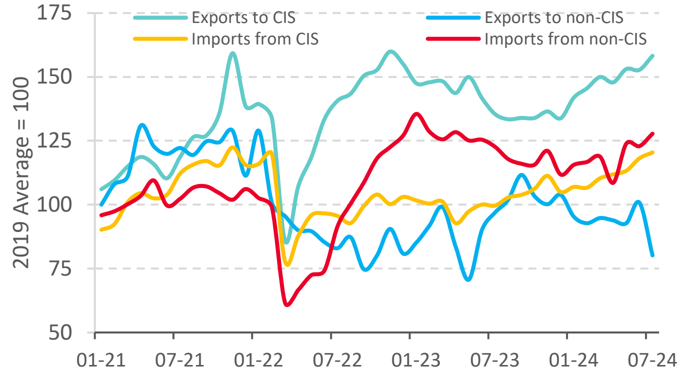

b) investment (seasonally adjusted, in real terms)



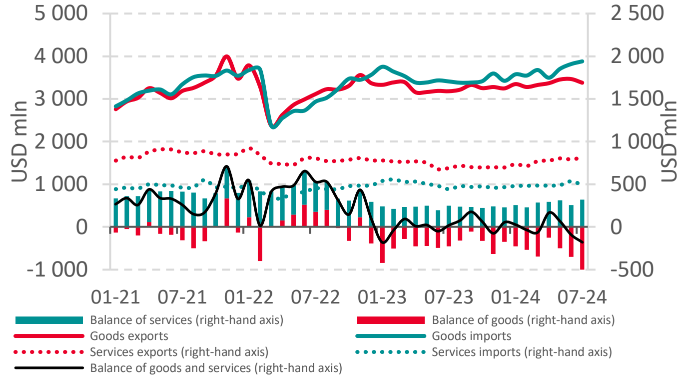

**Note:** Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction price indices. The indicator dynamics updates once new data are published.

Figure 6. 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 indicator dynamics updates once new data are published.

## Foreign trade worsened in July amid strong domestic demand and a sharp temporary decline in oil product exports

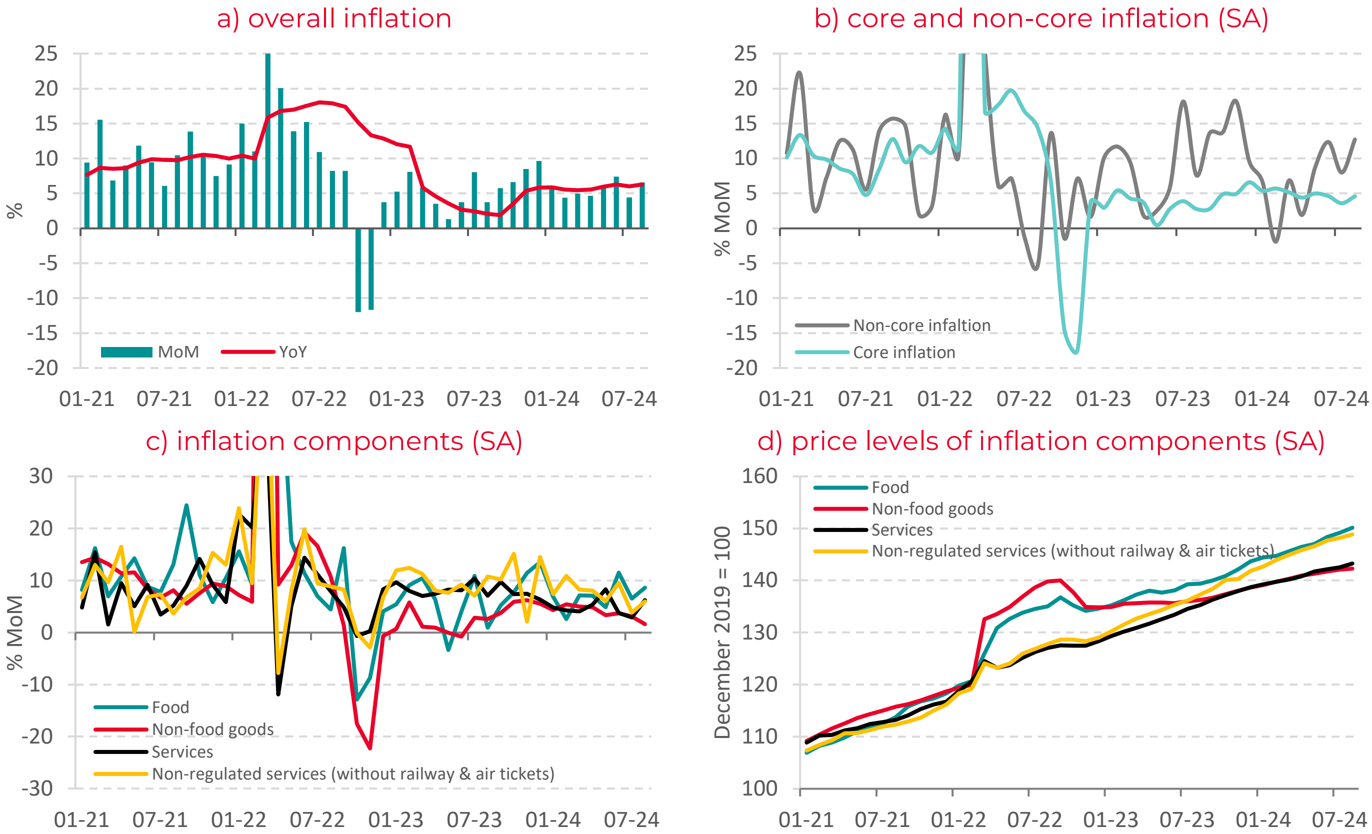
The deficit of foreign trade in goods and services (seasonally adjusted) amounted to about $180 million in July 2024 following about $90 in June (Figure 6.b). The negative balance of merchandise trade widened by $150 million to almost $500 million in July (seasonally adjusted). This is explained by a sharp reduction in exports to non-CIS countries (Figure 6.a), which occurred against the backdrop of a decline in production in the Gomel region; this indicates a temporary reduction in the supply of petroleum products due to problems at the Mozyr Oil Refinery. Once the restoration work at the refinery is completed, shipments will resume. In addition to the impact of a one-time factor, the increase in the goods trade deficit in June-July was influenced by the maintenance of an increased volume of goods imports in an environment of overheated domestic demand (Figure 6.b).

In July, foreign trade in services was characterized by an increase in surplus in the environment of the end of the decline in the ICT sector (Figure 6.b). This smoothed out the impact of goods transactions on the overall balance of foreign trade, which is low this year but not critical to provoke a sharp macroeconomic destabilization.

**Inflation increased in August compared to July: the annual inflation grew from 5.5% to 6.1% YoY, and the annualized monthly inflation (seasonally adjusted) grew from ≈4.5 to ≈6–7% MoM** (Figure 7.a)

Monthly inflation accelerates mainly because of the atypical dynamics of vegetable prices (this is taken into account in the composition of non-core inflation; Figure 7.b). Vegetables did not become cheaper in August at the rate that would correspond to the regular seasonal price decrease, and cucumbers and cabbage became more expensive than ever in many years. As a result, the annualized seasonally adjusted growth in prices of fruits and vegetables is estimated at close to 70% MoM in August. Overall, in the summer of 2024, vegetables and fruits increased in price by slightly more than 3% on average per month (seasonally adjusted): that was almost 50% in annualized terms. The reasons for such a strong increase in prices may be challenged imports, the negative impact of weather conditions on crop yields, the possible adverse impact of sanctions, complicated supplies of phytosanitary products, and the priority of exports over saturation of the domestic market.

Figure 7. 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.

**Core inflation in August is estimated at ≈4.6% MoM (annualized, seasonally adjusted). This is higher than the July value of ≈3.6% MoM, but this is a low rate still, given the current macroeconomic situation** (Figure 7.b)

The weak dynamics of prices for non-food products restrained core inflation. Annualized seasonally adjusted non-food price growth fell below 2% MoM in August (Figure 7.c), and the annual growth rate fell to 4.4% YoY. The increase in the cost of goods sold by 18% YoY in January–July 2024 in the context of overheated consumer demand and overheated labor market only partially transferred to consumer prices of non-food products. This is mainly due to the restriction of trade margins and strict price controls exercised by the government.

The sharp price growth acceleration in a number of food products has raised certain concerns. **Wheat flour, bread and bakery products, cereals and legumes, pasta and confectionery products increased in price by an average of more than 15% MoM in August** (annualized, seasonally adjusted). This may be due to the combination of the low harvest this year and the low harvest last year. If this is the case, then price pressure in the meat and meat products segment may increase in the coming months. However, it is too early to draw final conclusions about the reasons for the strong acceleration in price growth for the above-mentioned goods, and it is necessary to monitor their future dynamics.

**In the segment of unregulated services, the pressure of increased costs, primarily from wages, remained but did not increase.** Without the highly volatile international rail and air transport sector, the annualized seasonally adjusted price growth in this segment is estimated at around 6% MoM in August; with the elimination of the distorting effect of the directive change effective from July 2024 in approaches to setting the cost of medical services, it is estimated at around 7% MoM (Figure 7.c). The most indicative market household services continue to rise in price at a high rate (8–9% MoM), but these rates have not really accelerated in recent months. It can be cautiously assumed that consumer demand for services is passing the peak of expansion, and its dynamics may take a more moderate trajectory in the future.

**Annual inflation will remain close to the current level in the coming months, and the forecast range will remain at 5–7% YoY by the end of the year.**