Belarus Economy Monitor:
trends, attitudes and expectations

Express Analysis

Economic activity and inflation

November 2023

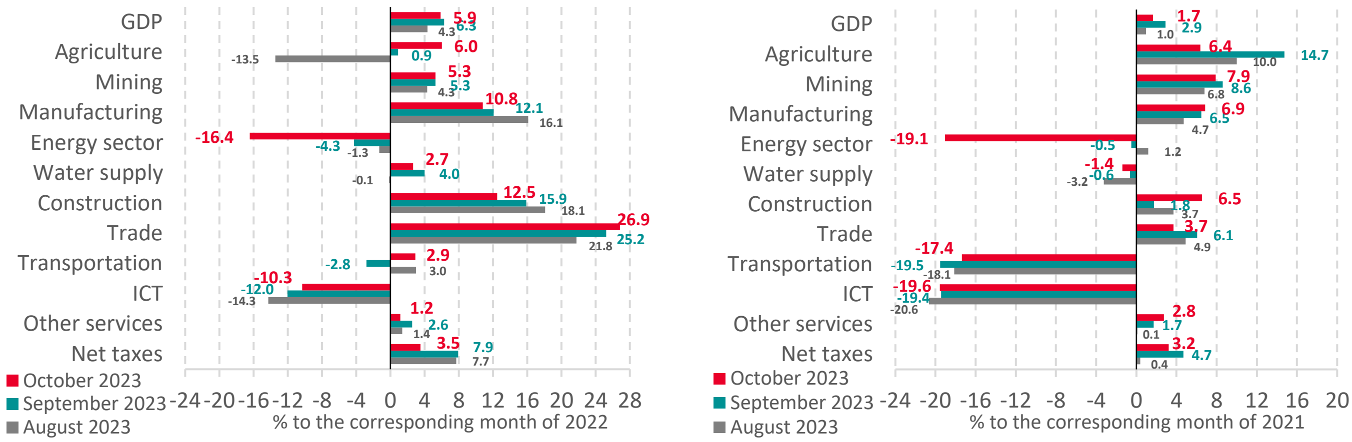
Economy remains overheated despite weakening growth impulse

GDP grew by 3.8% (YoY) over the 10 months of 2023, including a ≈5.9% growth (YoY) in October 2023 (Figure 1.a). In October, the volume of GDP (seasonally adjusted) remained close to the September level. This is higher than the monthly average in 2021 and noticeably higher than equilibrium output, i.e., the volume of GDP that does not generate macroeconomic imbalances. In October, high output level was supported by strong domestic demand, which was fueled by an overly expansionary domestic economic policy. Coupled with the restraining effect of production capacity limitations on the supply side, strong demand increases inflationary pressures in the economy.

Taking into account the results of 10 months of this year, Belarus' GDP growth will most likely exceed 4% at the end of 2023. Since the space for recovery growth has been exhausted, production capacity is already at its peak load, and the growth of potential GDP in Belarus is estimated at around 1% per year, a "healthy" process for the next year is a heavy slowdown in economic growth. Attempts by the authorities to artificially maintain its high pace through an excessively loose economic policy will lead to a significant increase in inflation and devaluation pressures, which is fraught with a crisis in the medium run.

Figure 1. Growth in GDP and value added of sectors in Belarus

a) % of the corresponding month of 2022 b) % of the corresponding month of 2021



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

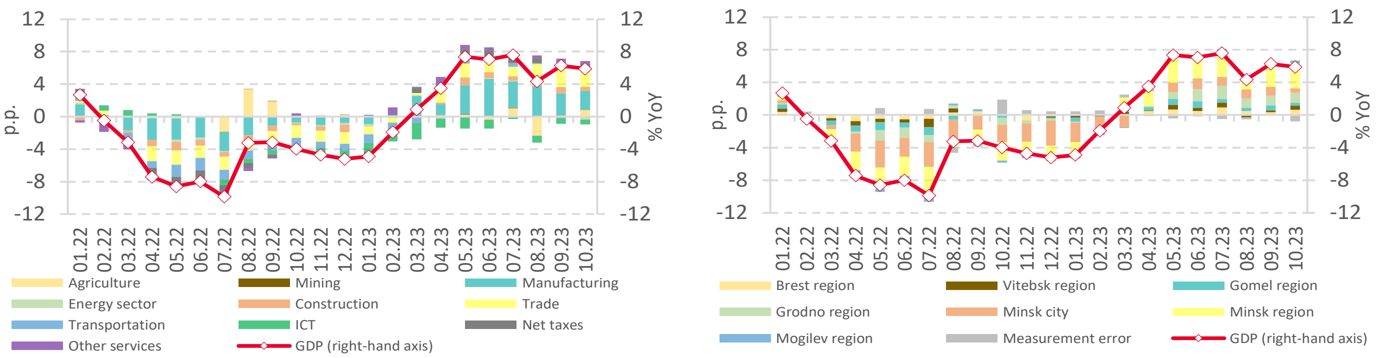
This Express Analysis is an operational analysis of the status of the key macroeconomic indicators of Belarus.

Value added growth in the manufacturing industry slowed down to ≈10.8% (YoY) in October, and the sector's contribution to annual GDP growth amounted to ≈2.3 p.p. (Figure 2.a)

The output of manufacturing industries (seasonally adjusted) showed a minimal growth in October versus September (Figure 3.a). Production increased noticeably in the Vitebsk and Mogilev regions, which may indicate an increase in oil refining and petrochemical production. The manufacturing industry in the Brest region increased: growing activity in the wood processing subsectors and/or in the food industry cannot be ruled out. Processing output decreased in Minsk and the Minsk region, and the dynamics in the Gomel and Grodno regions also weakened. It is likely that potassium production has reached its maximum output under current conditions, and mechanical engineering enterprises (and, possibly, metallurgy enterprises, too) are increasingly experiencing limitations of their production factors (shortage of workers, record-breaking production capacity utilization). The latter corresponds to the decreasing value volumes of goods' exports to the CIS observed in Q3-2023 (Figure 4.a): it is possible that the physical volumes of supplies to Russia have hit their ceiling, and their US dollar prices have decreased due to the weakening of the Russian ruble against the US dollar.

Figure 2. Structure of GDP growth in Belarus (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 water supply.

Stockpiles decreased in October (Figure 3.b)

Industrial enterprises can sell their stockpiles in the context of high domestic demand and temporary specific conditions on the Russian market (demand of the military-industrial complex, overheated domestic demand in Russia, etc.). It should be noted that decreased deficit of foreign trade in goods (seasonally adjusted) in September (Figure 4.b) is largely explained by increased exports to countries outside the CIS (Figure 4.a). This may highlight the high production capacity utilization of oil refineries and Belaruskali (potash fertilizer plant), and, possibly, an increase in the output of wood processing products.

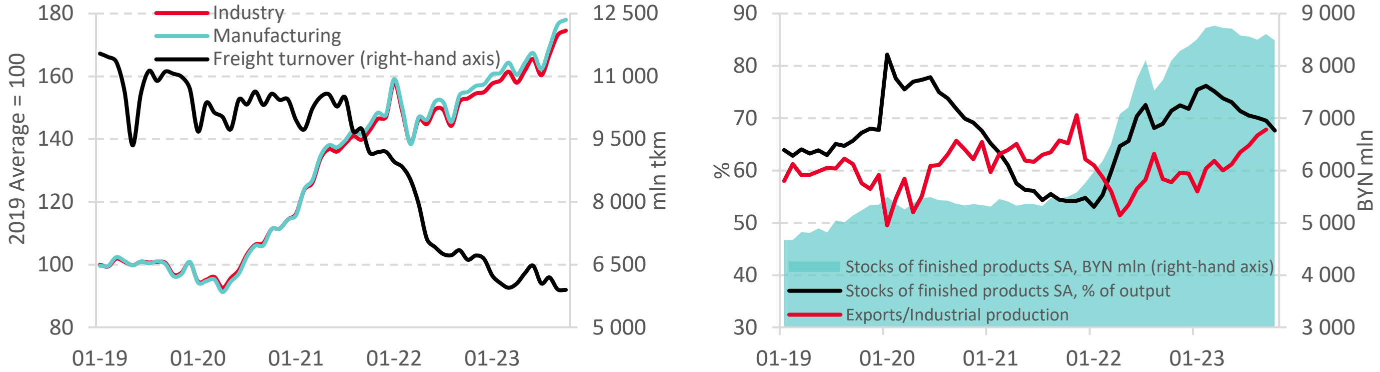
Agricultural value added increased by ≈6% in October (Figure 1) contributing ≈0.8 p.p. to annual GDP growth (Figure 2.a)

The increase in agricultural output was largely driven by livestock production, which may indicate continued growth in the food industry.

Freight transportation remains depressed

Freight turnover (seasonally adjusted) remained at the local trough in October, falling ≈40% short of the average volume in 2021 (Figure 3.a). There are no prospects for a quick recovery in the sector in the context of reduced transit and increased competition from Russian forwarders.

Figure 3. Output and inventories dynamics in industry

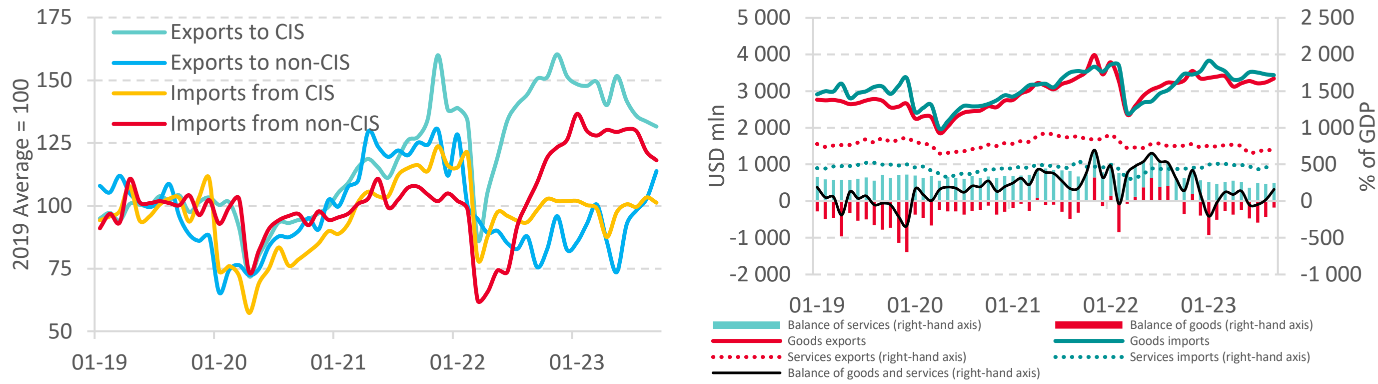


Note: SA is a seasonally adjusted indicator. Seasonal adjustment has been made by using the X13 and TRAMO/SEATS procedures in the JDemetra+ software application. The indicator dynamics updates once new data are published.

The ICT sector continues to stagnate

Value added in the ICT sector decreased by ≈10.3% (YoY) in October, thus subtracting ≈0.6 p.p. from annual GDP growth (Figure 2.a). The slowdown in the annual rate of decline in the sector (Figure 1.a) indicates stagnation in the output of ICT services, since the added value dynamics remains weaker than two years ago: minus ≈19.6% (YoY) in October 2023 versus October 2021 after being minus ≈19.4% (YoY) in September 2023 versus September 2021 (Figure 1.b).

Figure 4. Dynamics of foreign trade indicators



Note: The X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

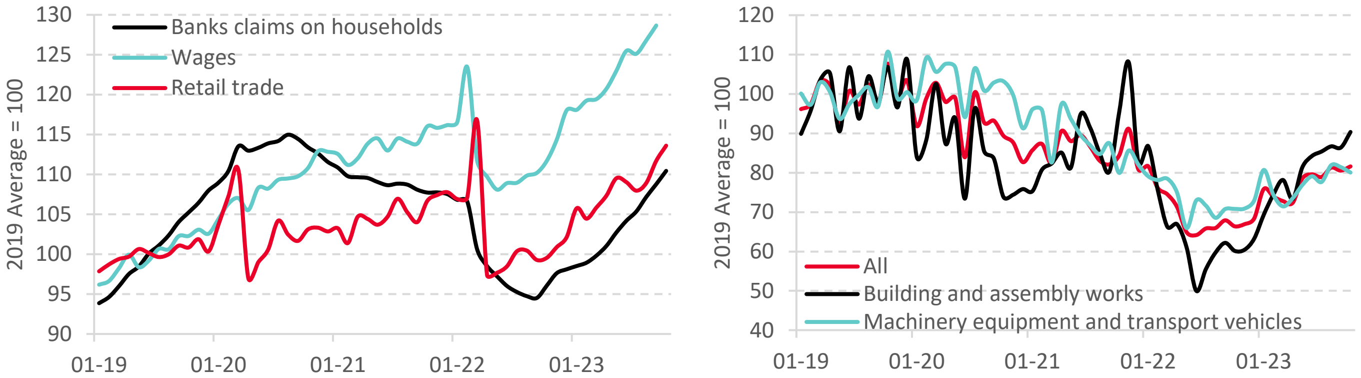
Consumer demand for goods continued to expand in October

Retail turnover (seasonally adjusted) increased in October versus September, and it was ≈8% higher than the average monthly volume in 2021 (Figure 5.a). Household consumption continues to be driven by sustained credit expansion in the environment of loose monetary policy and rising wages amid labor shortages and likely fiscal and/or quasi-fiscal supports (Figure 5.a). Due to these factors, consumer activity will remain strong in the near run, but it will weaken in 2024 because of the saturation of pent-up demand and limited capacities for expanding domestic production.

Figure 5. 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 September 2023) 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.

Investments increased in October due to investments in machinery and equipment

Investments in machinery, equipment and vehicles increased in October versus September (seasonally adjusted) (Figure 5.b). Probably, in order to adjust to excessive domestic and foreign demand (due to overheating of the Belarusian and Russian economies), manufacturers need to expand their production capacity, since the existing ones are fully utilized at record levels. This supports the growth of investment imports and creates conditions for increasing costs and selling prices. Investments in the construction sector have stagnated in recent months (Figure 5.b), which is reflected in the slowdown in the growth of value added in the sector (Figure 1).

Inflation accelerated in October, but growth in goods prices remained subdued

Annual growth in consumer prices rose from its historical low of 2.0% (YoY) in September to 3.7% (YoY) in October 2023 (Figure 6.a). This increase was expected; it is mainly explained by the fact that the reduction in prices in October 2022, associated with the introduction of a new price regulation system, came out of annual inflation calculations.

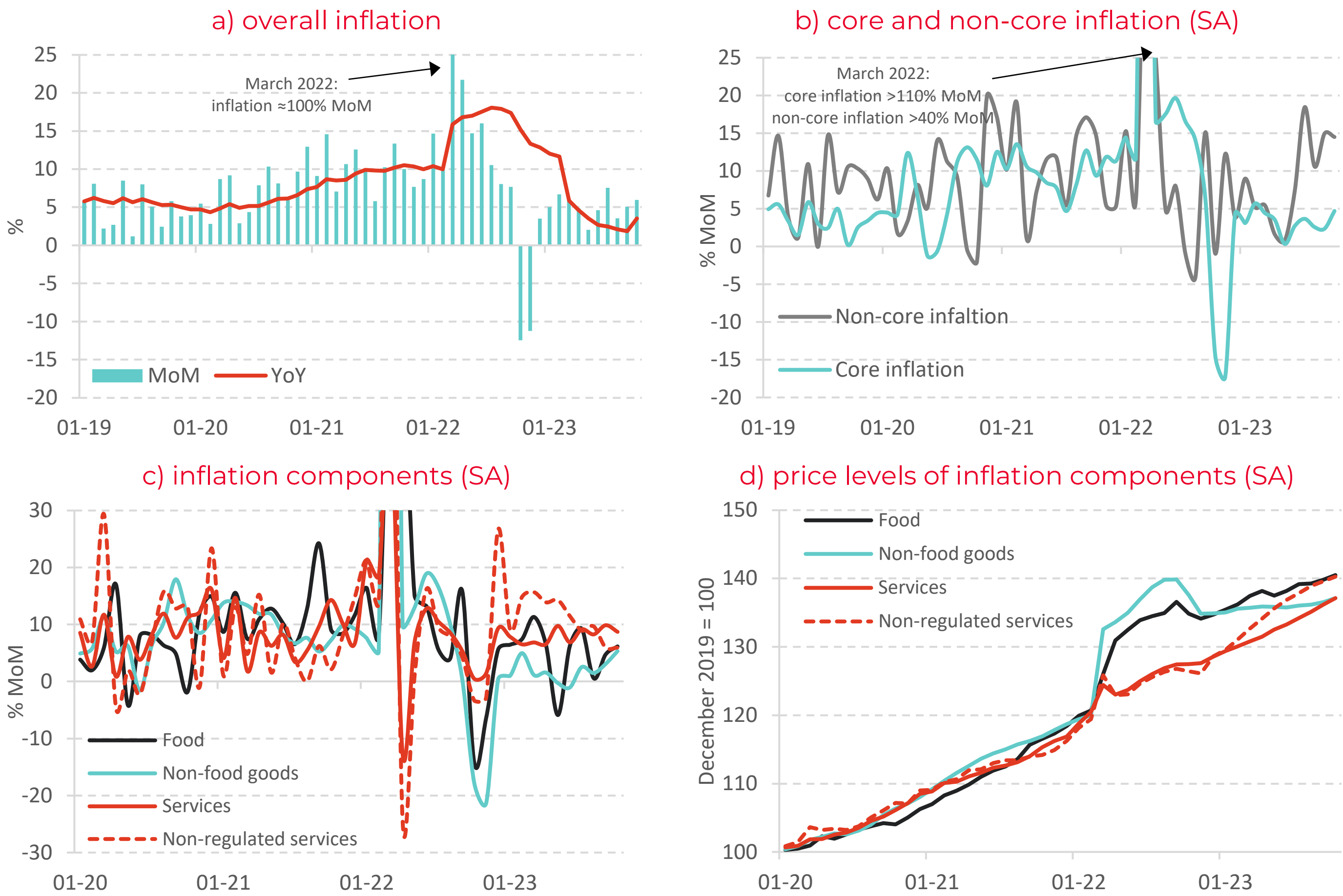
Annualized monthly inflation (seasonally adjusted) also accelerated from 5–5.5% (MoM) in September to 6–6.5% (MoM) in October 2023 (Figure 6.a). The price impulse strengthening was caused by an increased core inflation: its monthly rate doubled versus the previous month (Figure 6.b). This is due to the intensification of price dynamics in non-food products (Figure 6.c), which may indicate a gradual transfer of costs — that have increased in the context of a shortage of workers and overheated demand — to prices.

Despite a noticeable acceleration, the annualized increase in the Core Consumer Price Index remained below 5% (MoM) in October. At the same time, services, including unregulated ones, are steadily rising in price at a higher rate compared to goods (Figure 6.c). Price dynamics in the goods segment continue to be distorted by strict government regulations. The price level for unregulated services continued to deviate upward from the price level for non-food products (Figure 6.d), signaling the likely accumulation of an inflationary overhang.

Annual inflation may slightly exceed 5% (YoY) in November, and it will be in the range of 5–6% (YoY) at the end of 2023

Administrative price reduction in November 2022 will exit annual inflation calculations in November 2023. In the economy, excessive demand amid loose domestic macroeconomic policy and labor shortages will continue to put upward pressure on prices. As a result, inflation will rise in the coming months. If strict price controls are maintained, price growth acceleration may extend over time.

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.