

Belarus Economy Monitor: trends, attitudes and expectations

Macroeconomic forecast for Belarus 2024–2025

April 2024

The Belarusian economy will slow down in 2024 and will stagnate in 2025 due to the exhaustion of extensive growth factors

The Belarusian GDP will grow by 2.1% in 2024 following its 3.9% growth in 2023. The effectiveness of economic incentives will decrease in the environment of the reached ceiling of capacity utilization and the increasingly negative impact of price controls on investment activity and the financial position of firms. In 2025, the Belarusian economy will stagnate, adjusting to its balanced state after overheating. Blanket price controls will continue to limit the translation of costs increased in an environment of excess demand and labor shortages into inflation, which is projected to be 6.1% YoY in 2024 and 8.3% YoY in 2025. In terms of the foreign currency basket, the Belarusian ruble will weaken by 4–6% in Q4-2024 versus Q4-2023 amid the projected deterioration in foreign trade.

This forecast is still highly uncertain, including due to the ad hoc nature of domestic economic policy. The range of probable deviations of the dynamics of macro indicators from the forecast trajectory of the baseline scenario is wide, and the risks shift towards worsening estimates.

Table. Macroeconomic forecast for Belarus for 2024–2025 under the QPM baseline scenario

Indicator	2023	2024	2025
GDP (% YoY, in real terms)	3.9	2.1	0.0
Inflation (% , December vs December of the previous year)	5.8	6.1	8.3
Interest rate on new market loans in BYN (% , annual average)	8.9	10.7	12.8
USD/BYN exchange rate (#Belarusian rubles per US dollar, annual average)	3.00	3.29	3.55
100*RUB/BYN exchange rate (#Belarusian rubles per 100 Russian rubles, annual average)	3.55	3.57	3.76
Nominal wage (Belarusian rubles, annual average)	1,902	2,187	2,369

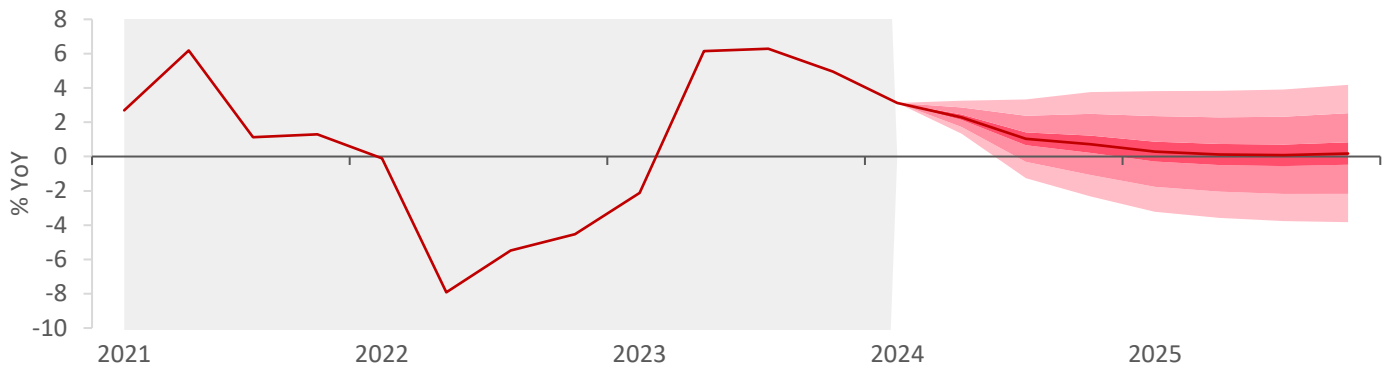
Source: The calculations are based on the Quarterly Projection Model (QPM) for Belarus.

The bulletin — “Macroeconomic Forecast for Belarus” — presents a forecast of the key macroeconomic indicators of the Belarusian economy for up to two years; it is based on a quarterly projection model (QPM) designed for the Belarusian economy. The bulletin provides only the baseline scenario forecast, i.e. the scenario whose prerequisites are subjectively assessed as the most realistic in the current context. A description of the relevant forecast assumptions is in Section 6.

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1 Baseline scenario forecast: Economic Activity

Figure 1. Forecast of real GDP dynamics in Belarus



Source: The calculations are based on QPM and the Belstat data.

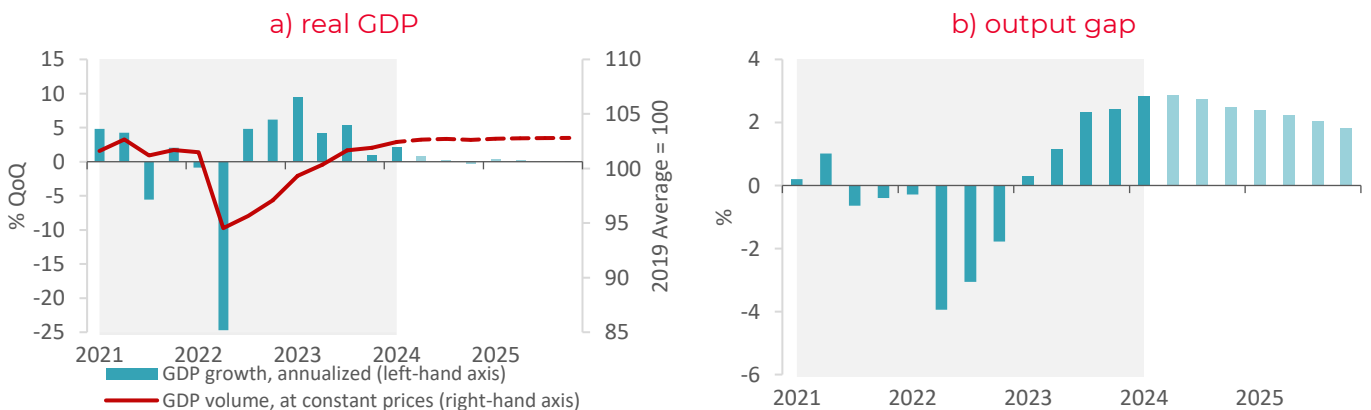
Note: YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

Belarus' GDP growth will slow down from 3.9% in 2023 to 2.1% in 2024

In Q4-2023 through to Q1-2024, economic growth slowed due to supply-side constraints: labor shortages, complicated import supplies, and bottlenecks in the export logistics infrastructure (Figure 2.a). These factors will continue to restrain GDP dynamics in 2024 even if stimulating economic policy and growing household incomes are sustained. Output will be additionally affected by strict price controls, which suppress incentives for investment and limit business space for expanding production. Higher competition in the Russian market will become another limiting factor for economic activity in Belarus. As a result, GDP growth will fade through 2024 (Figure 1), but annual GDP performance will remain above the balanced rate (about 1% per year) due to the inertia of high consumer demand, the preservation of a generally loose economic policy, and supportive external demand.

Compared to the October 2023 forecast, the GDP growth estimate for 2024 increased by 0.5 p.p. This forecast revision is explained by stronger dynamics of Russia's GDP against the backdrop of wear-and-tear operations of the military-industrial complex and higher social benefits.

Figure 2. Real GDP of Belarus and output gap



Source: The calculations are based on QPM and the Belstat data.

Note: QoQ (quarter-on-quarter) is the annualized growth rate of the quarter versus the previous quarter (seasonally adjusted). All indicators are seasonally adjusted.

The quality of this growth is extremely low: the Belarusian economy will remain overheated in 2024

The output gap is projected at ca. 2.5–3% in 2024 (Figure 2.b). The economy will continue to operate in a state of excess demand, and the factors of production will be over-utilized above their optimal capacity to satisfy this demand. A significant widening of the output gap seems unlikely due to the reached extensive growth ceiling and the expected narrowing of market monetary incentives. However, continued practice of directed lending, the likely application of budgetary and quasi-fiscal instruments, as well as an attempt to satisfy the overheated demand in Russia to the maximum extent will slow down the rate of returning the economy to an equilibrium state.

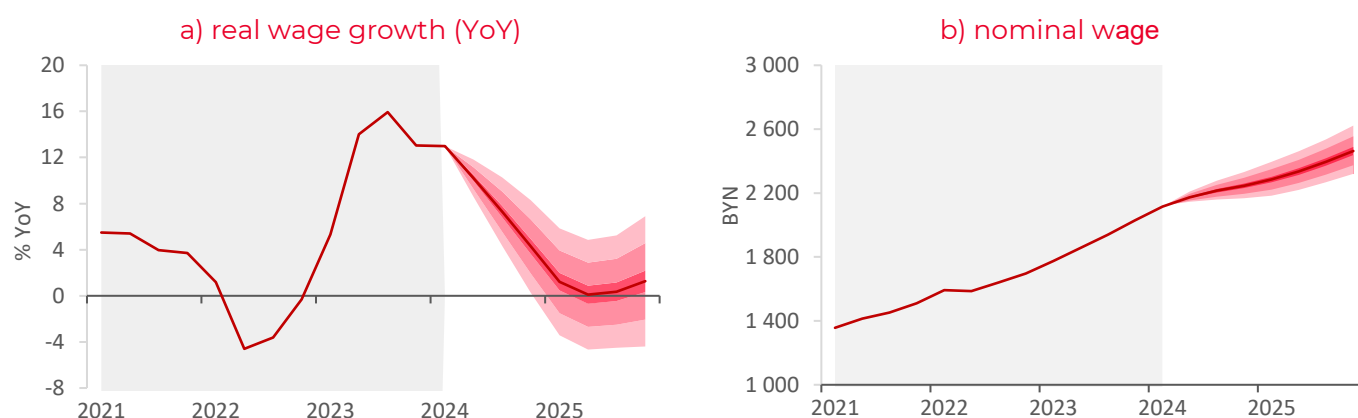
The Belarusian economy will stagnate in 2025

The attenuation of displaced growth in 2025 will be a healthy process associated with the adjustment of an overheated economy to the equilibrium state (Figure 2.b). The authorities' ability to counteract the weakening economic dynamics in mid-term looks doubtful due to the low growth potential under the existing political and economic institutions. Without new large-scale external preferences, the likelihood of a shallow recession at the turn of 2025 is higher than ensuring GDP growth of at least 2% per year on average.

Wage growth will continue to outpace GDP growth significantly in 2024

It is likely that increased government budget expenditures on wages and social benefits will be maintained in the pre-election year. The shortage of workers will continue to push labor costs upward, although the severity of this challenge may decrease due to the weakening emigration process and the fading aggregate demand dynamics. As a result, the growth rate of real wages will remain high in 2024–2025, but it will be slowing down (Figure 3.a). During 2024 and even more so in 2025, strict price regulation will become a factor not supporting, but restraining the growth of real wages due to its negative impact on the financial standing of firms. Given the projected inflation trajectory (see Section 2), the average nominal salary will be ca. Br 2,187 in 2024 and ca. Br 2,369 in 2025 (Figure 3.b).

Figure 3. Wage forecast for Belarus

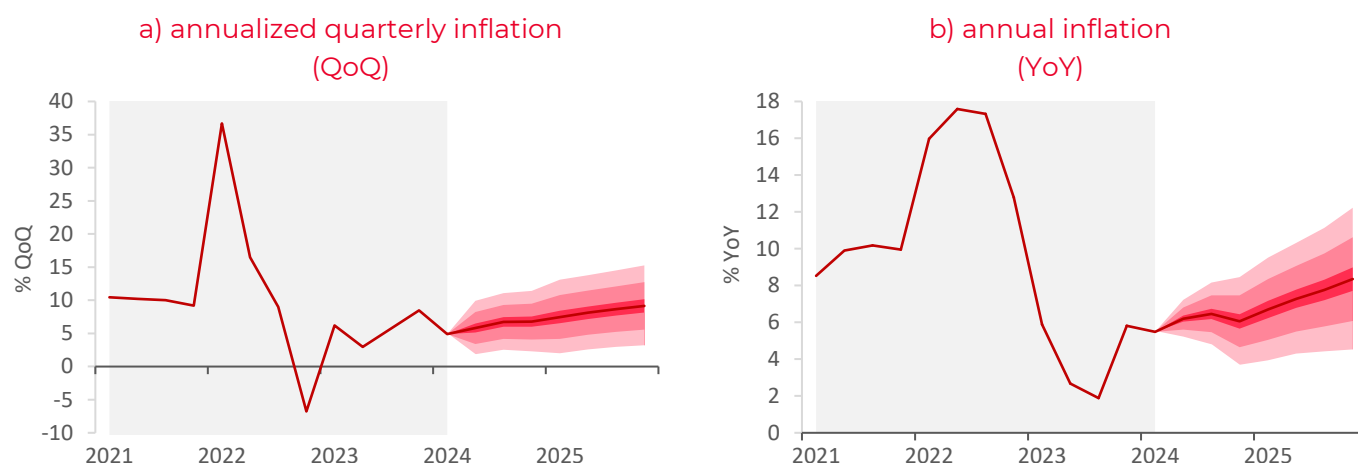


Source: The calculations are based on QPM and the Belstat data.

Note: YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

2 Baseline scenario forecast: Inflation

Figure 4. Inflation forecast for Belarus



Source: The calculations are based on QPM.

Note: QoQ (quarter-on-quarter) is a seasonally adjusted annualized growth rate in the period versus the previous period; YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

Inflation will accelerate to 6.1% YoY by the end of 2024

Pro-inflationary pressure will remain elevated this year. Excessive demand in the economy, labor shortages and the projected weakening of the Belarusian ruble stimulate rising costs for producers of goods and providers of services. Constant adaptation to sanctions also increases costs. Price pressure from the Russian market will remain, but it will weaken in the second half of 2024 as inflation slows down in Russia. In combination with the inflationary overhang accumulated by the beginning of 2024, the transformation of the identified factors into actual price increases could lead to inflation accelerating closer to 10% YoY this year. At the same time, the Belarusian authorities have tightened price regulation again since the beginning of 2024, and they are highly likely to keep it strict. Together with a conservative approach to increasing regulated prices and tariffs, this will limit the transfer of pro-inflationary factors into actual price increases, as a result of which annual inflation is projected to be 6.1% YoY (Figure 4.b).

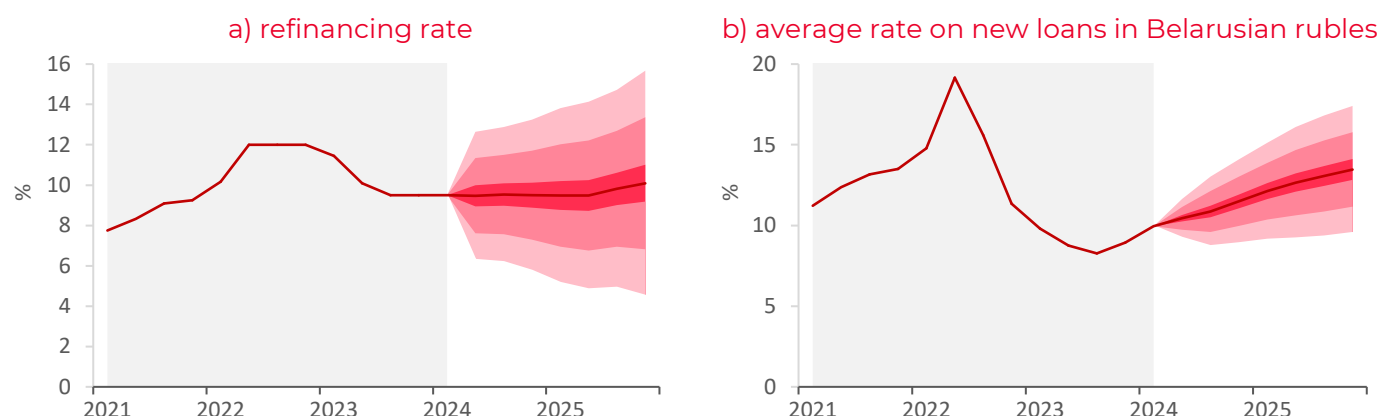
The inflation forecast for 2024 lowered by 3.2 p.p. versus the October 2023 forecast. This adjustment is explained by the Belarusian authorities tightening their approach to price controls even despite its increasingly negative impact on investment activity and corporate finances, as well as the widening inflation overhang that increases the risks of a price surge in the future. At the same time, the scale of aggregate pro-inflationary pressure generated by demand, wages and the Belarusian ruble exchange rate remained comparable between the current forecast and the October 2023 estimates.

Inflation will accelerate to 8.3% YoY in 2025

It is likely that price regulations may be relaxed somewhat to support firms' financial health after the 2025 political campaign is over. This will lead to faster inflation (Figure 4.a) due to the accumulated inflation overhang even despite the projected decrease in pro-inflationary pressures generated by the demand side and wages due to weakening economic activity.

3 Baseline scenario forecast: Interest Rates

Figure 5. Forecast of nominal interest rates in Belarus



Source: The calculations are based on QPM.

Note: The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

The National Bank will continue to be late in responding to inflation risks due to lacking independence and problems in internal communications

The refinancing rate (to which the costs of directed loans are tied) is projected to be close to the current level of 9.5% in 2024 through to the first half of 2025 (Figure 5.a). The National Bank is currently unable to change the refinancing rate without getting approval from the Government and the Presidential Administration, and the directed lending instrument will continue to be actively applied to counter the economic downturn. The refinancing rate could be raised to 10–11% in the second half of 2025 to impact inflation if the authorities ease price controls.

Average interest rates on market loans and time deposits in Belarusian rubles will increase in 2024–2025

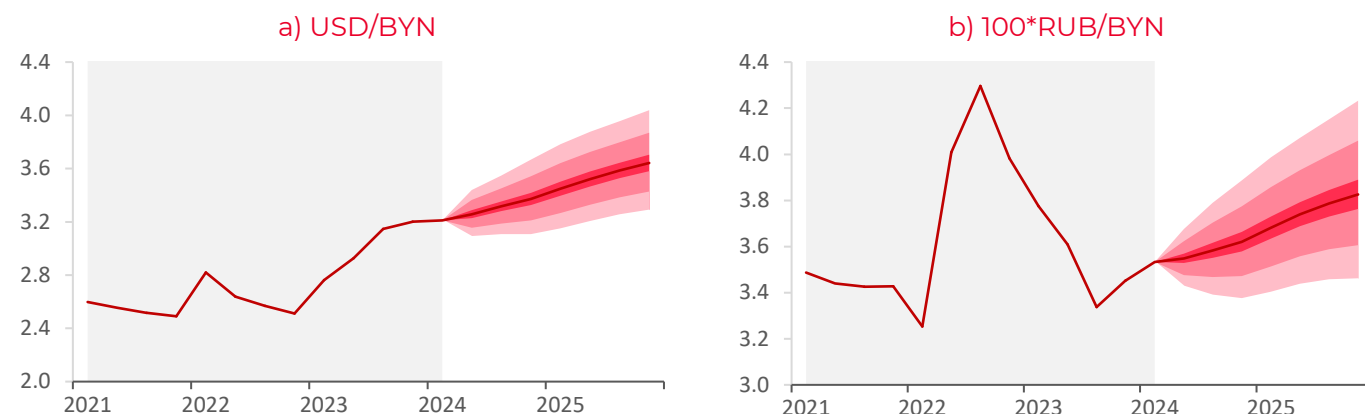
The National Bank will continue to use indirect tools to influence inflation processes to prevent the expansion of monetary stimulus. It seems likely that prudential measures (estimated values of standard risk, credit limiters) and reserve requirements will be used, as well as a slow increase in the interest rates on overnight deposits if there are no heavy shocks. The consequence of this will be an increase in the interbank market rate, a higher profitability of bank deposits in Belarusian rubles, and a further rise in the cost of Belarusian ruble market lending. The average interest rate on Belarusian market ruble loans is projected to be $\approx 10.7\%$ in 2024 and $\approx 12.8\%$ in 2025 (Figure 5.b).

The projected trajectory of interest rates will decline their stimulating effect on economic activity, and neutral levels are likely to be reached by late 2024

The transition of the monetary policy to moderate tightness after a long period of its extreme looseness in 2022–2023 is out of the question yet; however, that would be a healthy response to accumulating inflationary overhang and to overheating consumer demand.

4 Baseline scenario forecast: the Belarusian Ruble Exchange Rate

Figure 6. Forecast of nominal exchange rates of the Belarusian ruble



Source: The calculations are based on QPM.

Note: The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

Foreign trade will increase its pressure on the Belarusian ruble exchange rate in 2024

Excess demand in the economy will support high import volumes. Increased competition in the Russian market, infrastructure restrictions for further expanding the supplies of potassium and petroleum products to foreign markets, reached ceilings of industrial capacity utilization, continued sanctions pressure and stagnation of the ICT sector will restrain exports. The price terms of trade will be affected by lowering prices for potash fertilizers on the global market, as well as by decreasing benefits for Belarus from the imports of cheap Russian Urals oil alongside its narrowing discount versus the Brent oil price.

As a result, the state of foreign trade in goods and services could turn from a surplus of 0.7% of GDP in 2023 to a deficit of 0–1% of GDP in 2024 and 2025, if there are not major shocks. This will pressure the Belarusian ruble exchange rate moderately.

In terms of the foreign currency basket, the Belarusian ruble will weaken by 4–6% in Q4-2024 versus Q4-2023, and by ≈6–7% in 2025, if the dynamics of foreign trade and interest rates on domestic and foreign markets materialize as forecasted in the baseline scenario

The dynamics of the Belarusian ruble exchange rates against individual foreign currencies will depend on the trajectory of cross exchange rates in foreign markets. If the USD/RUB rate is close to 92–93 Russian rubles per US dollar, the USD/BYN exchange rate will be 3.3 Belarusian rubles per US dollar on average in 2024 (Figure 6.a). In this case, the exchange rate of 100*RUB/BYN is projected at 3.6 Belarusian rubles per 100 Russian rubles on average in 2024 (Figure 6.b).

5 Baseline scenario forecast risks

The ad hoc nature and voluntarism of domestic economic policy give rise to a gigantic forecast uncertainty by common standards

The horizon for forecasting and planning economic policy measures has narrowed to approximately one quarter in Belarus. Every quarter, there is a reassessment of policy priorities and methods for achieving them, depending on the current situation in the domestic and foreign markets. As a result, economic policy is lagging rather than forward-looking, which can cause extremely high volatility in the economy cycle when exposed to shocks.

The growth rate of Belarus' GDP will decrease significantly by mid-2024. This development of events will create a dilemma for the Belarusian authorities: either use additional incentives trying to get closer to the target GDP growth of 3.8% (but this will require easing price controls) or forget about achieving this goal and focus on fighting inflation, most likely by administrative tools. Both decisions pose risks for the economy; and in both cases, it will be impossible to roll back to the original state.

The first option increases the threat of macroeconomic and financial destabilization. With production capacity already at record-breaking utilization and sustainable GDP growth not exceeding 1% per year, meeting the output target will require strengthened economic stimulus through directed lending, easing market monetary conditions and increased fiscal spending. This will increase the positive output gap into the range of 5–6% by the end of 2024, which used to happen in Belarus only before the crisis periods of 2009, 2011, and 2014–2015.

The second option can contribute to the gradual resorption of price pressure from domestic demand and support foreign trade. However, long-term containment of inflation by administrative methods will in any case be associated with maintaining an inflationary overhang, the threat of growing goods deficits, and the gradual fading of investment activity.

Severe deterioration in the financial standing of enterprises is an important threat to macroeconomic and financial stability

The profitability indicators of enterprises (especially trade companies) deteriorated noticeably in 2023 and in early 2024. This was largely the outcome of applying a strict system of price controls in the domestic market, as well as the deterioration of foreign trade conditions. This year, the financial standing of firms may suffer even more due to tightening price regulations and in the event of disruptions of export/import logistics chains and/or increased external inflationary pressure. If this scenario materializes, the threat of the NPL crisis (non-performing loans) may become tangible and affect the banking system. As a result, the economy will plunge into recession, coupled with a higher inflation and a significant weakening of the Belarusian ruble, and the duration and depth of the recession will depend on the responses of the authorities. The mildest consequences are expected in the event of a sharp weakening of the administrative impact on business and the repeal of Resolution 713 on price regulation, which will enable to activate the internal adaptation mechanisms of the economy to shocks.

Increased sanctions pressure remains a risk factor

The key risk is the increase in the effectiveness of enforcement or threat of enforcement of secondary sanctions of Western countries against the countries that are intermediaries in foreign trade operations of Belarus and Russia. This, first of all, can create problems with settlements and payments, which will complicate export-import logistics and can lead to logistics gaps. Materialization of this threat will have similar consequences for the Belarusian economy as those described above.

The consequences of increasing sanctions pressure on Russia (or increasing the effectiveness of sanctions already in force against it) seem potentially significant. In case of Belarus, such a scenario is fraught with the impossibility to leverage today's relevant adaptation mechanisms to the sanctions environment, which are in one way or another connected with Russia (logistics and access to the markets of third countries, access to the domestic Russian market, access to payments and access to external finance).

Total dependence of the Belarusian economy on Russia is a powerful factor in forecast uncertainty

Today, the competitiveness of Belarusian producers critically depends on Russian support in the form of cheap energy commodities, access to transport and logistics infrastructure and, indirectly, in the form of financial support provided by the Russian government to the Belarusian government. Total dependence on Russia undermines the Belarusian economy's resilience to heavy shocks and increases the risk of unexpected disruptions. In addition, one cannot be sure of the sustainability of Russian GDP growth and, accordingly, the demand for Belarusian goods, as well as the successful safeguarding of macroeconomic and financial stability in the medium term.

The risk of a global recession coupled with high inflation remains relevant

The tense global military-political and social situation shapes the main risks and threats to economic development. Any escalation of a military-political conflict, especially in the Middle East, will cause logistical disruptions and a possible reduction in energy resource production. This in turn will lead to a strong increase in inflationary pressure in the world, coupled with weakening economic activity. Heavy external inflation shocks will significantly limit the ability of the Belarusian authorities to curb price growth by administrative levers and will require softer price controls due to the accumulated inflationary overhang. Otherwise, the financial standing of enterprises has a risk of deteriorating to such an extent that a series of non-payments and bankruptcies may begin. This, in turn, can spread to banks and provoke a large-scale financial crisis.

Complete recovery of supplies of Belarusian fertilizers, petroleum products and wood products to the global market is a positive risk for the economy

If infrastructure constraints are eliminated quickly, the recovery in commodity production could become more robust in Belarus. This scenario will be positive for the government budget, and it will be associated with positive inter-sectoral effects. As a result, GDP growth will be above the baseline forecast in 2024–2025, but the positive effects of a full export recovery will fade over time.

Russia's GDP growth, which is greater than expected in the baseline scenario, remains a significant positive risk for the Belarusian economy

Russian authorities may find themselves in a position where they will have to support the direction of the Russian economy in the medium term, which leans to the military-industrial complex and social spending. It cannot be ruled out that the mobilization of resources and efforts will allow sustaining extensive growth of Russia's GDP above 3% in 2024–2025. If this scenario materializes, the demand for Belarusian goods (especially the products of the machine-building complex) will remain elevated, which can support excessive utilization of production capacity and over-equilibrium output growth in Belarus, but at the cost of growing inflationary pressure.

The equilibrium GDP volume of Belarus may be higher than current estimates based on QPM BERO, which could lead to higher GDP growth of about 3% in 2024

Both the Belarusian and Russian economies are going through a structural transformation, caused by disruptions in established production and logistics chains and their restructuring, as well as a shift in the sectoral structure of GDP. Estimates of equilibrium output are subject to an extremely high degree of uncertainty under such conditions. It cannot be ruled out that the volume of equilibrium GDP is now higher than the values estimated through QPM, and the scale of economic overheating is lower. If this assumption is correct, then Belarus' GDP has more room for growth this year, and it could be close to 3%. More accurate and reliable estimates will be available only a few years after. However, it is important to understand that the underlying determinants of economic growth — institutions and values — did not accompany its high rates after 2020, but rather, on the contrary, reduced the long-term economic growth potential.

6 Prerequisites and assumptions of the baseline scenario forecast**The sanctions regime against Belarus will continue**

New sanctions restrictions that could significantly affect the economy of Belarus will not be introduced or their effectiveness will be weak.

Import and export logistics chains will not be disrupted

There will be no logistical failures in 2024–2025. Key Belarusian export products will continue to be supplied to the global market by using the transport and logistics infrastructure of Russia mainly. Exports of potash fertilizers will remain close to the 2023 levels (about 9–10 million tons annually in 2024–2025) due to limited capacity and throughput of Russian seaports and railways. Imports of key goods, including investment goods, will remain available to Belarus (largely thanks to workaround schemes), but the cost of supplies will remain elevated and their lead times will remain longer.

Russia will continue to provide energy commodities and financial support to Belarus

Belarus will continue getting gas and oil from Russia at prices below world prices and exporting petroleum products (≈9 million tons per year) mainly through Russian seaports. At the same time, the benefit from importing cheap Russian oil will decrease in 2024 compared to 2023 due to a lower discount for the Russian Urals oil versus the Brent oil.

Financial support from Russia will continue, including through budget transfers (e.g., reverse excise tax revenues on oil products) and refinancing of government loans.¹ It cannot be ruled out that Russia will write off part of the Belarusian debt in 2024–2025, which (judging by balance of payments statistics) could happen in Q4-2023.²

Maintaining the economic policy design in effect at the beginning of Q2-2024 on the forecast horizon: strict price controls with a stimulating macroeconomic policy, but without increasing the scale of the stimulus

The National Bank will be under pressure from the executive branch, and therefore monetary policy will remain discretionary and will correspond to neither inflation targeting nor monetary targeting. Fiscal policy will continue stimulating economic activity with the projected government spending increase. At the same time, fiscal impulse will weaken, as room for growing revenues is limited in an environment of low growth potential.

The price regulation system will be strict until mid-2025

To ease price controls prior to the presidential election in 2025 may be undesirable for the authorities due to the threat of a surge in inflation, which is highly likely to follow such actions because of the accumulated inflation overhang. It is likely that the authorities will resort to quasi-fiscal instruments (recapitalization, refinancing the debts of state-owned banks and/or state-owned enterprises, etc.) and directed financing to camouflage the negative effects of price controls on the financial standing of enterprises and to counteract output decline.

Economic activity growth will remain strong in Russia in 2024, and it will skew towards the defense complex, but it will weaken gradually

Russia's economic growth prospects are limited due to its severe overheating by early 2024, record-breaking capacity utilization, sanctions effects, and significantly tightened monetary conditions. Nevertheless, Russian economy will continue to grow at a rate above the balanced rates in 2024 in an environment of expanding military and social spending, but this growth will slow down significantly in 2025. In the baseline scenario, Russia's GDP growth is projected at 3.0% in 2024 and 1.0% in 2025. Effective external demand (calculated as the weighted average of GDP growth in Russia, China, the EU and the US) will grow by 2.9% in 2024 and by 1.5% in 2025 for Belarus following a 3.3% increase in 2023.

External inflation pressure is expected to be elevated in 2024 on average

Restrained global demand will limit the room for rising prices for raw materials even in the context of a tense military-political situation in different regions of the world. Potash fertilizer prices in 2024–2025 will be lower than in 2023. Nevertheless, global consumer price growth will remain higher than the growth rate in the previous decade. Supply-side factors related to the fragmentation of the global economy and structural changes in the labor market will facilitate high inflation. In the US and the Eurozone, the baseline scenario assumes that consumer prices will increase by 2.5% and 2.3% in 2024 respectively, and by 2.0% in 2025. In Russia, inflation is projected to slow from 7.4% in 2023 to 5.3% in 2024 and to 4.3% in 2025 as the impact of the foreign exchange rate on price growth decreases and domestic demand growth slows down.

¹ In 2023, the net inflow of current transfers of the general government exceeded \$1.2 billion, which is more than twice as much as in 2020–2022, and is the maximum volume in the 21st century.

² In Q4-2023, a net inflow of capital transfers (which included writing off the debt) to Belarus was \$538.3 million. Prior to 2023, the maximum volume of net receipts of capital transfers in the 21st century was recorded in 2014 at \$4.6 million for the entire year.