Belarus Economy Monitor:
trends, attitudes and expectations

Macroeconomic forecast for Belarus
2024

October 2023

The growth of the Belarusian economy will slow down significantly in 2024, and inflationary processes will concurrently intensify

Prospects for maintaining high GDP growth have weakened significantly, as the economy has been overheated by monetary and fiscal stimuli in 2023. Maintaining loose monetary conditions and increasing budget expenditures in 2024 will lead not so much to an output growth, but to higher price pressure. As a result, GDP growth will slow down from 3.9% in 2023 to 1.6% in 2024, even if adjusted supply chains and political track remain focused on holistic support of economic activity. Stimulative economic policy will revitalize the challenge of high inflation, which will accelerate from 5.6% in 2023 to 9.3% in 2024. The Belarusian ruble will weaken by 8–9% in 2024 versus the basket of currencies with a projected deterioration of foreign trade (Table).

The degree of uncertainty remains extremely high. 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 2023–2024 under the QPM baseline scenario

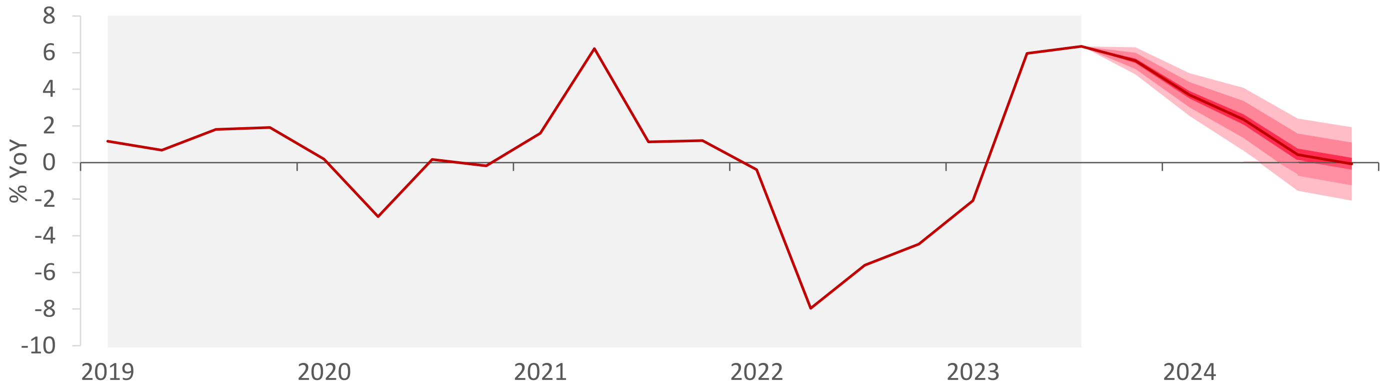
Indicator	2022	2023	2024
GDP *(% YoY, in real terms)*	-4.7	3.9	1.6
Inflation *(%, December vs December of the previous year)*	12.8	5.6	9.3
Interest rate on new market loans in BYN *(%, annual average)*	14.6	8.8	10.1
USD/BYN exchange rate *(#Belarusian rubles per US dollar, annual average)*	2.62	3.02	3.44
100*RUB/BYN exchange rate *(#Belarusian rubles per 100 Russian rubles, annual average)*	3.88	3.53	3.54
Nominal wage *(Belarusian rubles, annual average)*	1,631	1,890	2,132

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 forecasting 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.

1 Baseline scenario forecast: Economic Activity

Figure 1. Forecast of real GDP dynamics in Belarus



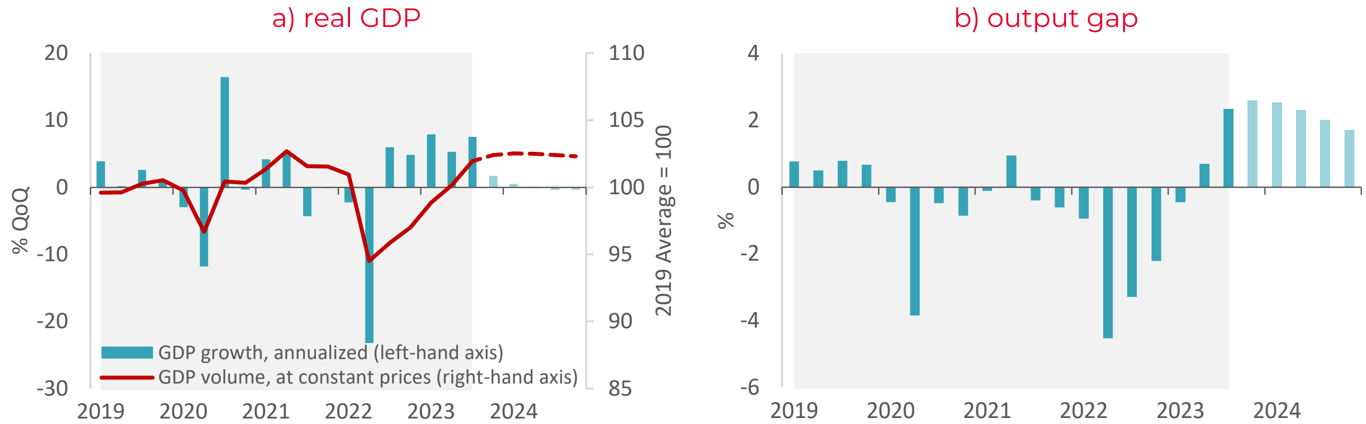
Source: The BEROC's calculations are based on QPM BEROC and the Belstat data.
Note: YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

GDP will grow by 3.9% in 2023 due to excessively loose economic policy and Russian support

The government appears to be committed to achieving its 2023 target indicators through an over-stimulating economic policy. As a result, GDP growth by the end of 2023 will be close to the target of the authorities (Figure 1). At the same time, the quarterly output dynamics will weaken in Q4-2023 (Figure 2.a). Rapid GDP expansion becomes extremely challenging given the positive output gap shaped in Q2-2023 and Q3-2023 (Figure 2.b). The economy operates beyond the level of optimal use of production factors. This limits the capacity of producers of goods and services to adjust to demand, which has noticeably increased in the context of broad monetary and fiscal stimuli.

The 2023 GDP growth estimate for Belarus has increased compared to the 2.5% growth expected in April. This update is mainly due to stronger external demand from Russia. The Russian GDP growth forecast by the end of 2023 has increased from 0.7% in the April version of the Macro Forecast to 2.5% in the current version.

Figure 2. Real GDP of Belarus and the 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.

GDP growth will slow down to 1.6% in 2024

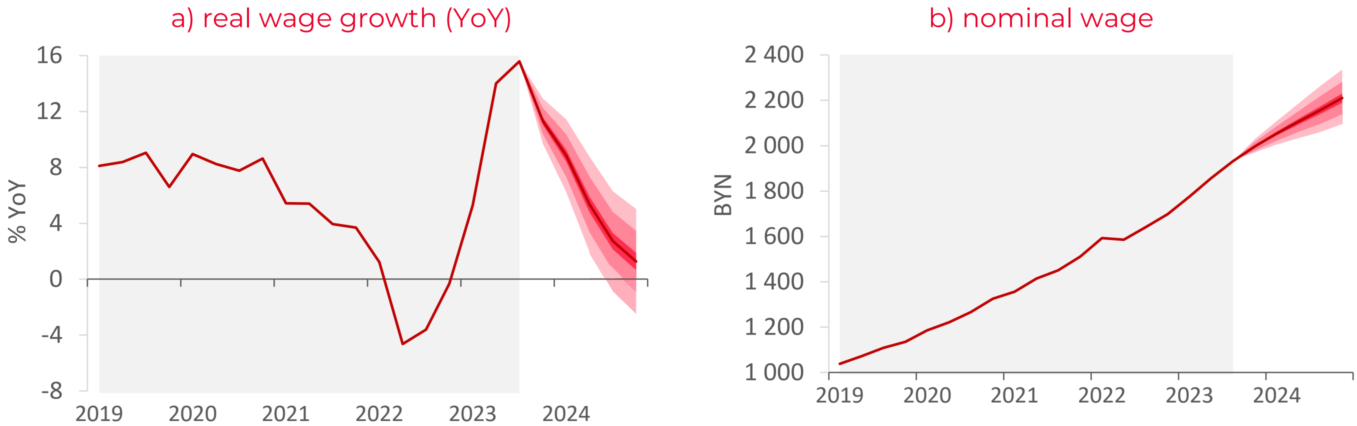
Monetary and fiscal stimuli will have less and less impact on output and more and more impact on price increases. As a result, the growth of domestic demand will slow down significantly, and imports, rather than domestic production, will play an increasingly important role in satisfying domestic demand if there are no excessive directive interventions by the authorities. The dynamics of consumer activity will weaken as the demand for goods deferred during the military shock of 2022 has been met, and rapid increase in consumption of services runs into limited supply. In 2024, investment activity will continue to be supported by non-market instruments and loose monetary conditions. However, the growth impulse — other things being equal — will fade in the context of labor resource deficit and an unfavorable business climate.

Export dynamics will weaken significantly in 2024. The degree of capacity utilization in the manufacturing industry was the highest in a decade already in September 2023: increasing output through extensive methods is becoming difficult, and sustainable productivity growth faces technological limitations, erosion of human capital, and low quality institutions. Pricing advantages of Belarusian producers on the Russian market have dried up due to the significant strengthening of the Belarusian ruble against the Russian ruble, and the projected slowdown of the Russian economic growth and intensified competition on Russian markets will have an additional restraining effect on exporters. Exports will continue getting support from the demand side of the Russian military-industrial complex and the operating supply schemes channeling Belarusian goods through Russian infrastructure.

Wage growth will slow down in 2024 amid weakening GDP dynamics

Real wages will increase by 4–4.5% in 2024 after growing by ≈11–12% in 2023 (Figure 3.a). Real wage dynamics will be supported by the state budget stimuli and the excess of labor demand over its supply due to unfavorable demographic trends and migration. The size of real wages will remain above the equilibrium (or inflation-neutral) level in 2024, but its stimulating effect on domestic demand will be limited due to declining employment. Given the projected inflation trajectory (see Section 2), such an increase in real wages corresponds to an average nominal wage of about BYN 1,890 in 2023 and BYN 2,132 in 2024 (Figure 3.b).

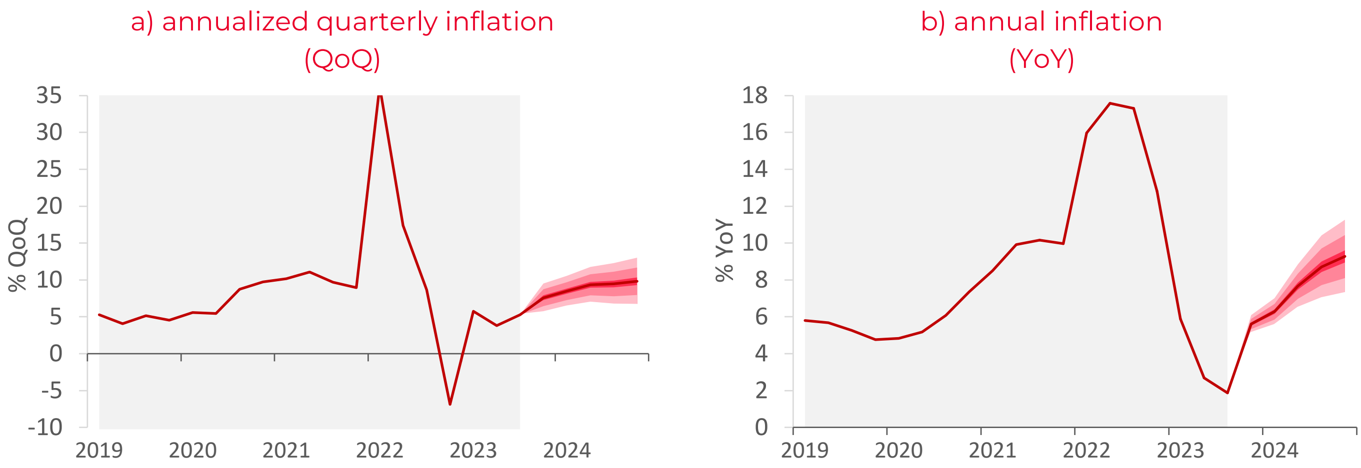
Figure 3. Wage forecast for Belarus



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 5.6% (YoY) by the end of 2023

Overheated domestic demand and a significant increase in wages create an environment for increasing costs, which will translate into rising consumer prices (Figure 4.a). Accelerated price growth in Russia and the expected weakening of the Belarusian ruble against the basket of foreign currencies will have an additional pro-inflationary impact in Q4-2023, which may trigger higher inflationary expectations of households and businesses. In addition, in October-November 2023, the shock of October-November 2022 (a decrease in prices due to tightening price regulation) will be excluded from the annual inflation estimate, which will increase this indicator sharply (Figure 4.b).

Inflation will accelerate to 9.3% (YoY) in 2024

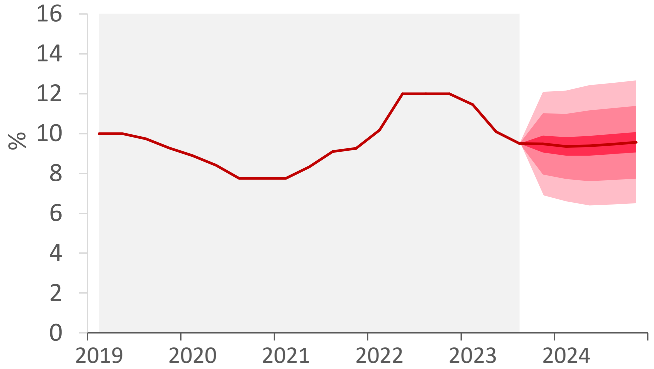
Translation of market factors into consumer prices will be extended over time if the current price regulation system preserves. In this regard, the largest pro-inflationary effects generated by excessively stimulating domestic economic policy in 2023 are projected to appear in the second half of 2024. Price pressure from inflation in Russia will remain, but it will weaken in the second half of 2024 as the price growth rate slows down in Russia. The contribution of the Belarusian ruble exchange rate to inflation will remain positive due to the weakening of the national currency against a basket of foreign currencies.

The inflation trajectory in the current version of the forecast is close to the dynamics expected in April 2023; however, the slowdown in price growth turned out to be more pronounced. The key factor behind the deviation from the forecast was the continued strict price regulation, which suppressed translation of pro-inflationary factors into prices. At the same time, the long-term application of blanket price control in combination with loose economic policy leads to accumulating inflationary overhang and increases the risk of an inflationary surge in the medium term.

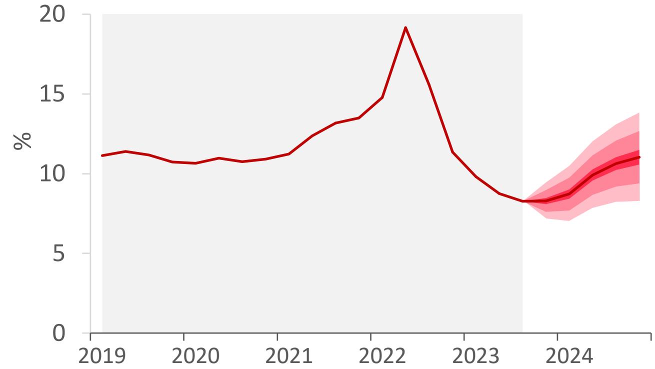
3 Baseline scenario forecast: Interest Rates

Figure 5. Forecast of nominal interest rates in Belarus

a) refinancing rate



b) average interest rate on new loans in Belarusian rubles



Source: The calculations are based on QPM.
Note: The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

Refinancing rate will remain near 9.5% in 2024

The National Bank's ability to use the refinancing rate to regulate inflation processes is limited due to the government's impact on it. If inflation does not exceed 10% (YoY) in 2024, then the refinancing rate will most likely not increase, and it will stay close to 9.5% (Figure 5.a). The refinancing rate is not expected to decrease given the predominance of pro-inflationary risks. The trajectory of the 2023-2024 refinancing rate increased by 0.5 p.p. versus the April forecast.

The expected use of emission financing for investment projects will be an additional factor supporting loose monetary conditions in 2024. At the same time, the National Bank is expected to use indirect levers to limit the growth rate of loan supply from banks in the context of materializing inflation threat.

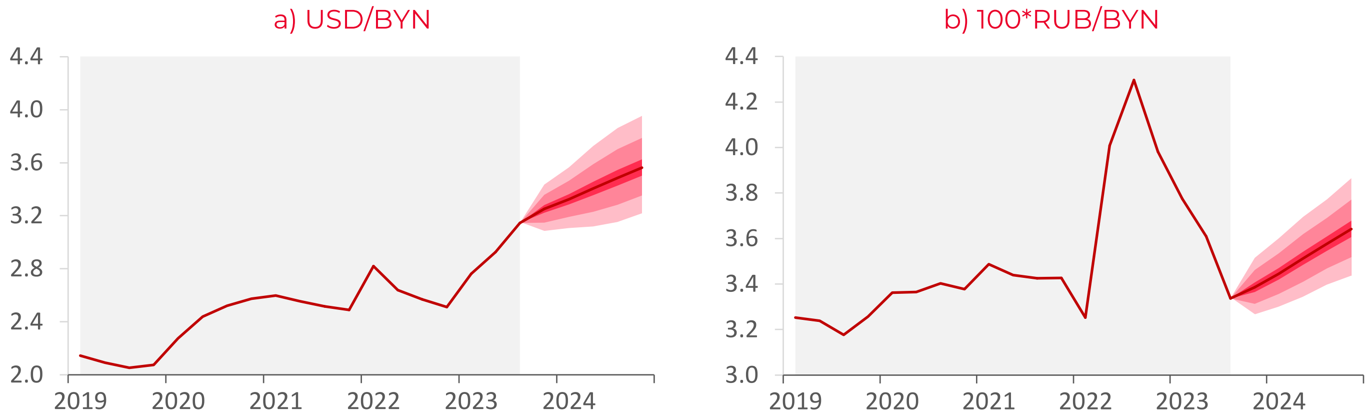
Average interest rates on market loans in Belarusian rubles will increase in 2023

The average cost of market Belarusian ruble credit resources will be ≈10.1% in 2024 (Figure 5.b). This assumes an increase in lending costs compared to 2023. In the context of growing risks to macroeconomic and financial stability, banks will have incentives to increase the cost of loans and, probably, to ration them due to the diversion of resources for lending under government programs.

The nominal yield of Belarusian ruble deposits will also grow in 2024 as inflation processes accelerate. As a result, interest rates on market loans and time deposits in Belarusian rubles will continue stimulating economic activity, but the scale of the stimulus will get smaller.

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.

Deterioration of foreign trade creates conditions for the Belarusian ruble to weaken in 2024

The projected outstripping growth of imports of goods and services over their exports will express in a foreign trade deficit, which will support net demand for foreign currency from enterprises. The transactions of non-residents — who used to be foreign currency donors on the Belarusian market in 2022–2023 — are expected to continue the trend towards "normalization" of net sales of foreign currency, which shaped in the summer of 2023. The net supply of foreign currency from households may decrease in 2024 compared to 2023 against the backdrop of significantly increased wages and the expected acceleration of inflation processes.

As a result, the Belarusian ruble has the prerequisites for weakening in 2024. If there are no additional shocks (largely related to non-economic risks), the rate of weakening is expected to be moderate: about 8–9% in terms of a foreign currencies basket (Q4-2024 versus Q4-2023). 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 95-100 Russian rubles per US dollar, the USD/BYN exchange rate will be 3.44 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 3.54 Belarusian rubles per 100 Russian rubles on average in 2024 (Figure 6.b).

5 Baseline scenario forecast risks

A prolonged combination of excessively loose monetary policy and blanket price control will lead to the accumulation of a large-scale inflationary overhang

If prices remain highly inflexible in response to changing economic conditions and the scope of monetary stimulus for business activity remains unchanged or expands in 2024, the threat of macroeconomic and financial destabilization will become very likely. It is difficult to project when this will happen, but the negative effects will include a large-scale price surge, a sharp tightening of monetary policy and an economic downturn that may be associated with a banking crisis. An example of such a crisis was the events of 2011; however, the situation is significantly different today because of the currently flexible exchange rate. In Q3-2023 on average, the Belarusian ruble was overvalued in terms of the real effective exchange rate, but the scale of the overvaluation was small in contrast to the late 2010 — early 2011. In this regard, the likelihood of a dramatic devaluation of the national currency seems small even if the risk described above materializes.

Supply chain disruptions may lead to recession in 2024

The sustainability of supply chains channeling goods to Belarus and the exports of Belarusian products are not guaranteed. Both the tightening of supply approaches of intermediary countries and the deterioration of the financial standing of Belarusian enterprises can lead to disruptions in import and export flows. Materialization of this threat will require fiscal policy tightening due to shrinking budget revenues, which could cause a sharp slowdown of the Belarusian economy in 2024 and even its recession. Also, such a development of events may lead to an inevitability more significant depreciation of the Belarusian ruble, including its depreciation against the Russian ruble. Such depreciation may become the only available option to maintain competitiveness and to keep the level of current account deficit that can be financed in the context of limited access to external finance. If the situation develops as described above, the likelihood of an inflationary-devaluation spiral and full-scale financial destabilization increases.

Increased sanctions pressure on Belarus and Russia remains a risk factor

New sanctions may affect — among other things — imports to Belarus, the financial sector and the transportation industry. At the same time, the economy has shown its high adaptability to restrictions, and if Russia’s support continues and if there are no effective secondary sanctions, the negative consequences of new restrictions will be contained.

The consequences of increasing sanctions pressure on Russia (or increasing the effectiveness of sanctions already in force against it) look more unpredictable and 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).

Growing dependence of the Belarusian economy on the Russian economy increases the risk of transmitting deteriorating macroeconomic conditions in Russia to Belarus

The sustainability of economic growth is not predetermined in Russia. Tightening sanctions regime, including the application of secondary sanctions mechanisms by Western countries, continued persistence of highly restrictive monetary conditions to combat inflation, and crowding out of private investments by less productive public investments can lead to an economic recession in Russia. This will shrink demand for Belarusian exports, deteriorate economic expectations, challenge budget execution and, as a result, this will weaken economic activity in Belarus.

The threat of stronger negative effects of fiscal stimulus on price stability in Russia and the Russian ruble exchange rates than assumed by the baseline scenario appears to be quite significant. If this risk materializes, this will lead to a larger price pressure in Belarus and to a weakening of the Belarusian ruble in 2024, which will affect consumer and investment demand.

The risk of a global recession remains significant, which poses a threat to the Belarusian economy

It turned out to be much more difficult to defeat inflation in the context of the "depressurization" of the global economy and financial system than in "normal" times. The fight against inflation is still incomplete in developed countries, which may lead to continued cycles of increasing interest rates and keeping them at high levels for a long time. This is fraught with a significant weakening of the global economic activity. The likelihood of major military conflicts to expand in different parts of the world has also increased recently, and these conflicts bear stagflationary consequences for the global economy. Due to the deepening isolation of the Belarusian economy, the impact of weak external demand will be limited, but sensitive. Weakening exports and secondary negative impacts on consumer and investment activity are likely.

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 budget, and it will be associated with positive inter-sectoral effects. As a result, GDP growth will be higher in 2024 than the baseline forecast. At the same time, one should be aware that the positive effects of a full recovery of exports will fade over time: within several years, Belarusian GDP growth will return to potential growth rates, which will not exceed 1-1.5% per year under the considered favorable scenario due to structural limitations and substandard institutions.

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

If the Russian authorities manage to get closer to the forecasted GDP growth of 2.3% in 2024 as stipulated in the draft federal budget, support for Belarusian exporters from the demand side in Russia will be significantly higher than expected in the baseline forecast. If this scenario materializes, Belarus' GDP growth may be more than 0.5 p.p. higher versus the baseline forecast.

6 Prerequisites and assumptions of the baseline scenario forecast

The current 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 over the forecasting horizon. The design of the current restriction measures will remain unchanged.

The existing import and export logistics chains will not be disrupted

There will be no logistical failures in the remainder of 2023 and in 2024. Key Belarusian export products will continue to be supplied to the global market by using the transport and logistics infrastructure of Russia mainly. The production of potash fertilizers will remain at 80% capacity, which means exports of 9–10 million tons of fertilizers.

Russian support will continue

Belarus will continue getting crude oil from Russia at prices below world prices, and it will export c.a. ≈8–9 million tons of petroleum products per year mainly through Russian seaports. The Russian market's demand for products from Belarusian mechanical engineering and electronics manufacturers will continue in the context of the Russian economy structure changing in favor of the military-industrial complex and many Western companies exiting the Russian market. Financial support from Russia will continue, including through budget transfers and refinancing of government loans.

Fiscal impulse will remain positive in 2024

The draft Law “On the National Budget for 2024” envisages a 21.2% increase in the volume of non-interest expenses of the national budget versus their planned level for 2023. It is rather likely that expenses will increase less in 2024, since expenses may exceed the planned target amid a higher revenue base in 2023. At the same time, the budgetary impulse accumulated over two years will be significant.

Monetary policy will continue to focus on supporting economic activity, and inflation risks will be of secondary importance

It is expected that emission resources will be used to finance investment projects. At the same time, the base scenario assumes that against the backdrop of accelerating inflation, the National Bank will strive to use the levers at its disposal to prevent loosing monetary conditions. These tools could include raising reserve requirements for banks, tightening prudential standards to limit lending, and, less likely, returning of the National Bank to actively regulated liquidity in the banking system.

The current price regulation system will continue operating

At the same time, government agencies will be more “willing” to endorse higher selling prices amid increasing pressures on manufacturers’ costs and deteriorating financial standing of retailers. The base scenario assumes that the accumulated inflationary overhang will not materialize in 2024 rapidly.

Growth in economic activity in Russia and the world as a whole will slow down in 2024

Tightening monetary conditions and the completion of the post-pandemic recovery in the services sector will lead to a global economic growth slowdown in 2024. Effective external demand (calculated as the weighted average of GDP growth in Russia, China, the EU and the US) will grow by 1.2% for Belarus in 2024 after increasing by 2.5% in 2023.

Russia's GDP growth will slow down from 2.5% in 2023 to 0.5% in 2024. The Russian economy has been overheated in the second half of 2023 due to the effects of large-scale fiscal stimuli: the Russian Ministry of Finance estimates the cumulative fiscal impulse to be about 10% of annual GDP in 2022–2023. According to the Bank of Russia, production capacity is loaded at more than 80%, which is the highest rate in twenty years. The unemployment rate has reached its historic low of 3% of the labor force, signaling a shortage of workers. In the current conditions, further GDP growth at a high rate seems challenging, and tightening of monetary policy by the Bank of Russia may lead to a noticeable “cooling” of lending activity. Fiscal policy will continue to support the Russian economy, especially in terms of financing the military-industrial complex.

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

In the context of overheated domestic demand and labor market, inflation in Russia will remain above the Bank of Russia target of 4%. In the first half of 2024, inflation in Russia will exceed 7% (YoY) and will slow down to 4.5% (YoY) by the end of the year, when the maximum restraining effect from tightening monetary conditions will be achieved. In the US and the Eurozone, the base scenario assumes an increase in consumer prices of 2.6% and 2.7% in 2024, respectively.