Belarus Economy Monitor:
trends, attitudes and expectations

Express Analysis
Economic activity and inflation

September 2022

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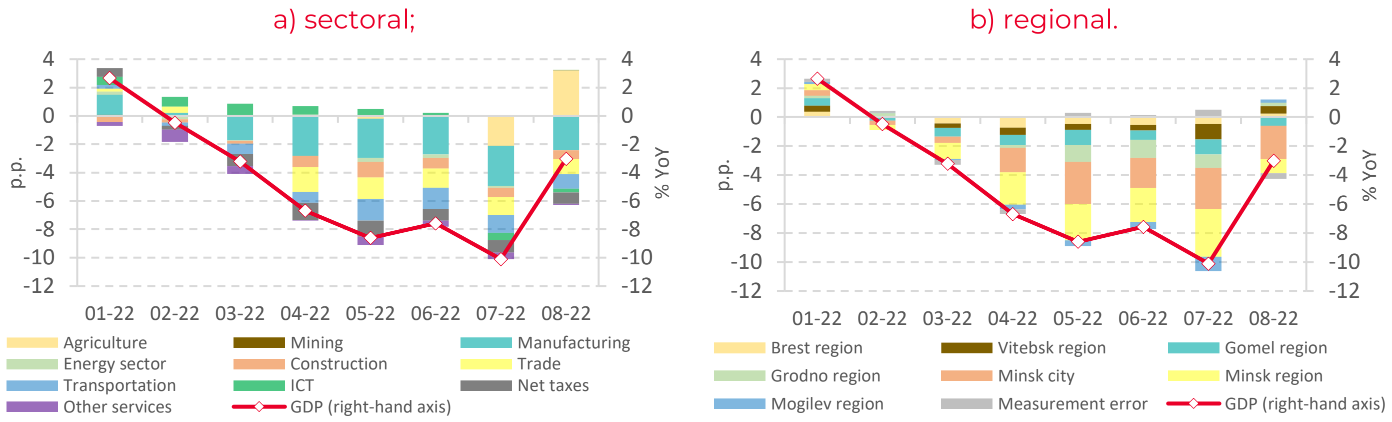
Decline in the Belarusian economy slowed down in August, while elevated inflationary pressures persisted

Belarus' GDP has fallen by 4.9% (y/y) over eight months. In particular, the GDP decline rate slowed to 3% (y/y) in August, while it was over 10% (y/y) in July. Decreasing scale of the decline is mainly explained by the picking up pace of the harvesting campaign with increased grain yields: agricultural value added rose by about 26% (y/y) in August, thus offsetting a nearly 20% (y/y) slump in July (Figure 1.a).

If we abstract from the harvest bias factor by applying the July-August weighted average growth rate of the agricultural value added to the calculation of GDP, then the estimated GDP decline was approximately 7.6% (y/y) in July and 5.7% (y/y) in August. In general, such dynamics indicate gradual adaptation of the Belarusian economy to operating under severe sanctions.

Figure 1. The GDP growth structure in Belarus



Note: The estimates will get updated once the data is clarified. The energy sector includes water supply.

The baseline scenario is a 5-6% GDP reduction by the year-end

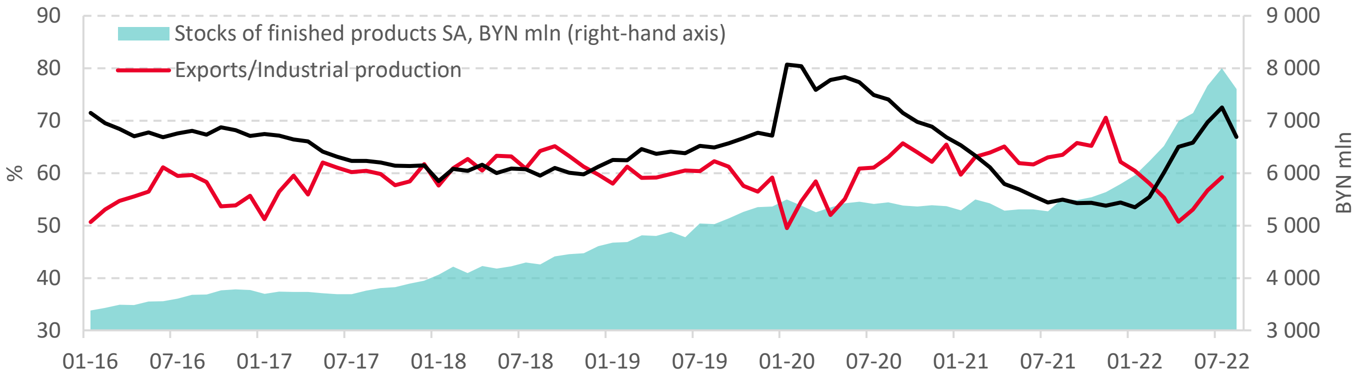
The economic downturn could be within 5% if the recovery in exports of petroleum products and potash fertilizers continues, the restructuring of production and supply chains intensifies, and if the price competitiveness of Belarusian enterprises does not deteriorate significantly. The risk is in deepening secondary negative effects on domestic demand, which can lead to a protracted recession.

This Express Analysis is an operational analysis of the status of the key segments of the Belarusian financial market and the most important macroeconomic indicators of Belarus.

Recession in most basic sectors of the economy slowed in August, but remained deep

The value added of the manufacturing industry sank by a little more than 10% (y/y) (versus over 13% (y/y) in July and 10% (y/y) in June). At that, inventories decreased significantly in August: if seasonal fluctuations are eliminated, their nominal volume decreased by 4-5% over the month, and in industrial production, inventories decreased from ca. 73% to 67-68% (Figure 2).[1] Inventories have decreased mainly in the Vitebsk, Gomel, Grodno and Minsk Oblasts, where large oil refineries and fertilizer producers are located. At the same time, the nominal volume of the August inventories exceeded the level of 2021 by more than 37% and it was higher than the level of the 2020 inventories by 38.5%, while there was a corresponding increase in producer prices in the manufacturing industry by 15.6% and ≈31.7%.

Figure 2. Dynamics of inventories and exports of goods in the manufacturing industry in 2016–2022



Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. As new data are published, the dynamics of the indicator in previous periods may update.

Inventories decreased, and the scale of dropping value added in the transport and trade sectors decreased concurrently from about 26.2% and 15.7% in July to 20.7% and 12.2% in August, respectively. A modest recovery in the manufacturing industry against the backdrop of smaller inventories and a noticeably smaller decline in the trade and transport sectors may indicate a partial recovery of positive cross-industry effects, as well as the impact of increased price competitiveness of Belarusian producers (mainly due to the undervaluation of the Belarusian ruble against the Russian ruble). Nevertheless, there is no vivid recovery in the basic sectors. In contrast to the imminent recovery after the acute phase of the pandemic in 2020, there are significant risks of growing secondary negative effects on the consumer and investment activity today.

It cannot be ruled out that the trade sector could be supported by an increasing demand from Russian citizens in August. Thus, the seasonally adjusted volume of retail trade was estimated to be higher in August than in July. The recession in the sector of other services (with the exception of trade, transport and ICT) has also decreased. The shopping trips of Russians to Belarus are not a sustainable GDP growth factor: their importance will diminish as parallel imports to Russia are established.

The ICT sector maintained a negative growth rate in August

Value added in the ICT sector declined by ca. 3.7% (y/y) after falling by 8.3% (y/y) in July. It is becoming more and more likely that the ICT sector will lose its status of a growth driver for the Belarusian economy.

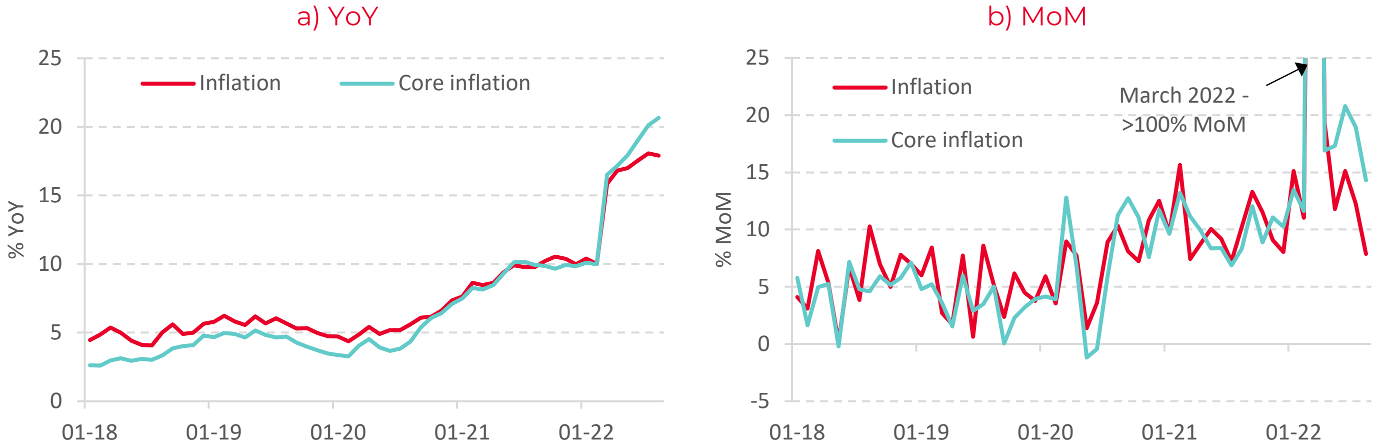
[1] These estimate ranges vary because various seasonal adjustment methods are applied.

Loose monetary conditions support the economy, but prevent active inflation reduction

Annualized inflation (hereinafter, % MoM; see note below) was about 8% in August. The monthly price growth slowed down significantly compared to the price growth in June-July (Figure 3.b). The annual rate lowered to 17.9% (YoY) in August from 18.1% (YoY) in July (Figure 3.a). Inflation declined largely due to fruits and vegetables that have been getting cheaper since May: pricing for vegetables and fruits fell by over 50% (MoM) in August following a smaller price decrease by ca. -40% (MoM) in July. Core inflation slowed down in August too, but its annualized growth remained above 14% (MoM) (Figure 3.b). This pace was faster than last year, which resulted in accelerating annual core inflation to 20.7% (YoY) (Figure 3.a).

Weak consumer demand limits price growth; however, undervaluation of the Belarusian ruble against the Russian ruble and adjustments of production and supply chains maintain an elevated inflationary background. These factors will remain relevant in the coming months. A relatively high grain yield can have an additional disinflationary effect. Therefore, an annual inflation range is likely to be 17–18% (YoY) in autumn, which is in line with the price trajectory along the lower bound of the 17–21% inflation at the 2022 year-end forecasted in the Inflation Review in July. Proinflationary risks are in the dimension of excessive monetary easing (see the Monetary Environment Review).

Figure 3. Inflation dynamics in 2018–2022



Source: The BEROC's calculations are based on the Belstat data.
Note: YoY (year-on-year) is a monthly growth rate versus the corresponding month of the previous year; MoM (month-on-month) is a seasonally adjusted annualized monthly growth rate versus the previous month (annual inflation equivalent). The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. As new data are published, the dynamics of the indicator in previous periods may update.