

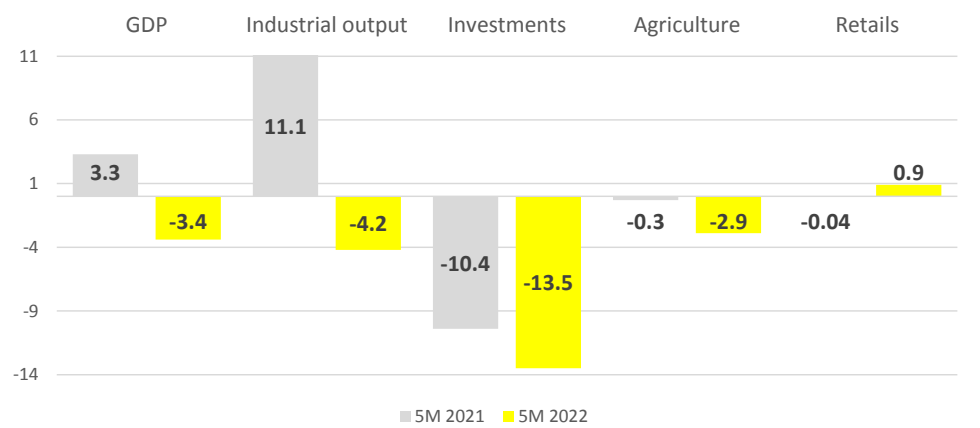
The rate of economic contraction is gaining momentum. **GDP dropped by 3.4% yoy** in the first five months of 2022. Domestic consumption and IT sector remained the only supporters of GDP, while the industrial output fell even faster than GDP by 4.2% yoy.

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Chart 1 - The high comparative base also contributed to GDP fall



Belstat, RBI/Raiffeisen Research
%, yoy

GDP fell by 3.4% yoy in the period from January to May 2022. This is the third month in a row that the economy has declined. 2021 GDP key supporters, such as industrial output and foreign trade, have also been decreasing under the Western sanctions pressure.

Industrial output continues to shrink, **falling by 4.2% yoy in 5M 2022.** The main contribution to the decline in industry and GDP as a whole was made by the manufacturing industry, which reduced by 5% yoy with its share in the industry approximately at 90%. On the other hand, a range of industries with a focus on the Russian market maintained significant growth rates in production (manufacture of electronic and optical equipment +23.4% yoy, manufacture of machinery and equipment +17.6% yoy, manufacture of wood and paper products +8.9%, pharmacy +7.4% yoy).

2021 was a very successful year for Belarus' foreign trade — exports of goods and services increased by 32.5% yoy and imports grew by 28.9% yoy. However, since the beginning of 2022, foreign trade growth has started to slow down due to the EU/US sanctions. **In 4M 2022, exports of goods and services decreased by 2.1% yoy, imports dropped by 4.5% yoy.** At the same time, lower exports of petroleum products led to lower imports of crude oil, which reduced the commodity deficit from USD 0.4 mn in 4 months of 2021 to USD 0.32 mn in 4 months of 2022. Along with a significant services imports slump (-19.2% yoy) and with a slight services exports fall (-4.2% yoy), the foreign trade surplus amounted

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to USD 1.3 bn in 4M 2022, up 30% in comparison to the same period of 2021. Thus, the authorities have managed to balance the foreign trade so far.

Agriculture and capital investments had also negative dynamics, down by 2.9% and 14.5% yoy for 5M 2022, respectively.

Only **domestic demand and IT-sector supported the Belarusian economy**. However, against the background of slumping real incomes by 1.2% yoy the 0.9% yoy growth of retail trade is already insufficient to support GDP. IT-sector remained the main supporter of the Belarusian economy with 8.3% yoy growth in 5M 2022.

Due to the low comparative basis, from the 2H 2022 a noticeable easing in the rate of GDP decline is expected. However, the already strong sanctions pressure will increase due to the EU restrictions on goods that have come into effect in early June 2022 (goods used for tobacco products, mineral fuels, bitumen, gaseous hydrocarbon products, potassium chloride, wood products, cement, iron, steel and rubber products).

As such, we maintain our current GDP forecast for 2022 of a 4% decline. However, an intensified geopolitical conflict may provoke a more significant economic drop.

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