

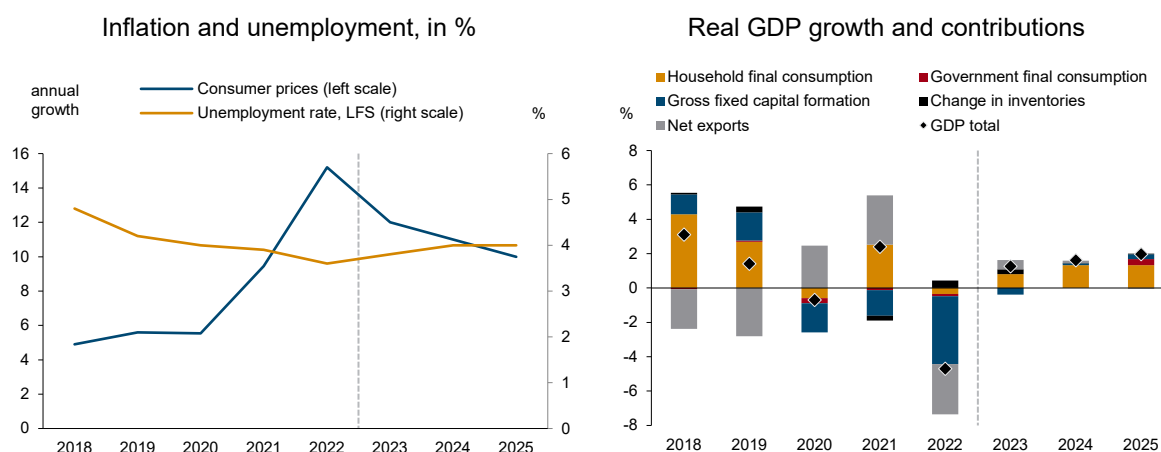


## BELARUS: Grappling with a crippled economy

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Throughout 2022, Belarus underwent a painful adjustment to the external shocks it faced. Despite massive policy support measures and Russia's continued economic backing, GDP shrank by 4.7%. That year also witnessed a sweeping reorientation of trade flows, and China became Belarus's second-largest trade partner. Despite all the measures, Belarus's crippled economy will continue to be dominated by persistent weakness. GDP growth in the coming years will remain in the range 1-2%.

Figure 5.2 / Belarus: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**In 2022, Belarus's economy weakened considerably.** This was mostly due to the Western sanctions, which intensified considerably in both scale and scope after February 2022. The newly imposed sectoral sanctions targeted some vital segments of the Belarusian economy, including the petrochemical industry, the production of fertilisers, and such sectors as banking, financial services and transport. According to estimates by the Belarusian government, the sanctions directly affected a quarter of the Belarusian economy. They resulted in an almost complete decoupling of Belarus from the key Western markets and dealt a severe blow to economic activity in the country. As an example, the production of potash fertiliser – one of Belarus's key export commodities – fell by more than 50%. Moreover, because of its support for Russia's invasion, Belarus lost almost entirely its access to Ukraine's economic space, which used to be its second-largest export market.

**Throughout 2022, Belarus underwent a painful adjustment to the external shocks.** The authorities introduced a range of policy support measures aimed at mitigating the adverse effects of the sanctions and the war in Ukraine, including financial support and tax relief for the worst-affected companies, as well as small and medium-sized enterprises. Linked to that, the government started issuing government bonds earmarked to provide funding for the exceptional measures. In parallel, the authorities undertook concerted efforts (both domestically and on the international arena) to facilitate the country's enforced trade reorientation. Belarus also negotiated a set of new cooperation and support agreements with Russia.

**However, these measures were not sufficient to offset the impact of the sanctions.** Overall, 2022 was marked by a deep recession, with GDP shrinking by 4.7%, while gross industrial production dropped by 5.4%. Real exports of goods and services plunged by more than 20% in 2022. Real imports contracted by slightly less, and so net exports contributed negatively to GDP growth. Gross fixed capital formation collapsed, declining by 17.5%, and also subtracted considerably from GDP growth. Private and public consumption were stagnant, and only stockpiling made a small positive contribution to GDP growth. Hoarding by industrial companies kept rising, and by the end of February 2023 stocks were some 30% higher than a year earlier. The one positive development in 2022 came in the agricultural sector: thanks to a good harvest, gross agricultural production increased by 3.6%, while the value of agricultural exports rose by some 25% in US dollar terms.

**Among the most visible effects of the external shocks were the shifts in Belarus's foreign trade.** It is not possible to trace all the trade effects in detail, as in 2022 the authorities imposed restrictions on some previously openly published statistical data, including the detailed breakdown of trade flows. However, according to anecdotal evidence, 2022 witnessed both an abrupt decline in trade with most Western economies and a massive reorientation of trade flows to and from new markets. Thus, according to public statements by Belarusian officials, the value of Belarusian exports to Russia in 2022 increased by a half compared to the previous year – and the export of agricultural products alone rose by some 70%. Basically, the Russian market absorbed most of what Belarus used to export to Ukraine, which in the past accounted for some 17% of its exports. The value of exports to China reportedly increased by 56%, and that country took the place of Belarus's second-largest trade partner. On the import side, Belarus has been seeking to replace imports of technology and equipment from the West with imports from China.

**The exchange rate dynamics in 2022 reflected changing conditions on the local currency market.** Given the dominant influence of the country's economic links to Russia, the Belarusian currency followed in the main the dynamics of the Russian rouble. Thus, after an initial plunge against the US dollar and the euro, the Belarusian rouble rose rapidly, and by June it had recovered to its pre-war levels. Apart from the effect of the Russian rouble, such dynamics reflected the declining demand for the US dollar and the euro, given the shrinking trade denominated in those currencies. The introduction of capital controls also prevented a further slide by the currency and contributed to the reversal.

**In parallel with the exchange rate, after an initial surge the pace of inflation moderated in the final months of the year.** Average annual consumer price inflation amounted to 15.2%, outpacing the rise in incomes. Overall, the real disposable income of the population in 2022 fell by 3.6%, compared to 2021.

**The movement in prices in autumn 2022 and at the beginning of 2023 was strongly affected by some radical policy moves.** Following a sharp increase in the cost of basic commodities – and particularly food – in the first half of the year, Belarus put in place unprecedentedly harsh price controls in October 2022. Citing their intention of supporting vulnerable segments of the population, the authorities introduced price freezes on 370 items of food and non-food consumer products. Later on, these measures were relaxed somewhat, and the price freezes were replaced with other forms of rigid controls, including price ceilings, while some price controls on non-food items were further softened or abolished. Though highly controversial and disapproved of by the business community, these measures did contribute to a moderation in the pace of inflation in the final months of 2022; and this trend continued in the first months of 2023.

**Unemployment has remained low, owing to persistent labour market shortages.** The lasting structural factor that drives these shortages is the shrinking of the labour force, due to the combination of an ageing population and a low retirement age. In addition, 2022 was marked by a surge in the exodus of the working-age population, including skilled workers such as ICT specialists and medical personnel.

**The central bank has maintained an accommodative expansionary stance.** Throughout 2022, real interest rates were highly negative – a position that was intended to stimulate economic activity and consumer demand. On the other hand, such a stance was pro-inflationary, and actually the price controls were also meant to partly offset this effect. Belarus introduced changes to the central bank regulations, whereby, in addition to the objective of safeguarding price stability, the National Bank of the Republic of Belarus was tasked with ‘ensuring financial stability’ and ‘fostering sustainable economic development’. The beginning of 2023 was marked by a further relaxation of the monetary conditions: the key policy rate has been reduced in three steps from 12.0% in January to 10.5% in April.

**Russia has continued to expand considerably its measures to support Belarus.** These have included a further easing of Belarus’s access to the Russian market, new credit lines, oil and gas supplies at highly preferential prices and the rescheduling of some financial obligations. Thus, the price of Russian gas imported into Belarus in 2022 was fixed at USD 128.50 per thousand cubic metres – just a fraction of the prevailing price on the international markets. Plus, according to some estimates, the combined effect of preferential oil prices in 2022 amounted to USD 1.7bn (or 2.3% of GDP). Without Russia’s support, the economic slump in Belarus in 2022 would have been much deeper.

**New steps have been undertaken towards further economic integration between the two allies.** Among the most important was agreement on the extensive use of the Russian rouble in trade between the two countries. In 2022, this regime was extended to most trade deals, and recently has also been applied to some financial transactions. As an example, Russia agreed to extend to at least 2024 the grace period for the repayment of a USD 10bn loan to Belarus and to accept the repayment in Russian roubles. Belarus and Russia have also made further steps in the implementation of the 28 economic integration programmes that the two countries signed in 2021.

**In 2022, Belarus recorded a marked improvement in the terms of trade.** On the import side, the country benefited from large implicit Russian energy subsidies (thanks to the highly preferential supply prices), while it continued to export petrochemicals at rising world market prices. Reflecting these developments, the current account ended the year with a positive balance.

**At the same time, the servicing of Belarus's external debt has given rise to new challenges.** Like Russia, Belarus announced that it would service its foreign obligations in the national currency, claiming that it was technically incapable of doing so in dollars and euros because of the financial sanctions. While this was deemed a default by international rating agencies, so far there has been no perceptible direct effect of such statements, as Belarus in any case has no access to Western financial markets. However, this situation does carry important financial risks for the future.

**The trough of the recession in Belarus was probably reached around mid-2022.** Thereafter one could observe a process of slow bottoming-out, which has continued in the beginning of 2023. However, being cut off from the main suppliers of technological inputs, Belarus is facing problems with the sheer maintenance of its productive assets, not to mention their technological upgrading. Undoubtedly, this will have repercussions for the country's future international competitiveness.

**Overall, Belarus's crippled economy will likely be dominated by persistent weakness in the coming years.** So far there has been no sign that the economy has succeeded in putting in place engines of sustainable growth. While Russia has pledged to continue its support to Belarus, including through preferential prices for oil and gas supplies, this will hardly be sufficient to reinvigorate the economy. We expect GDP to grow by just 1.3% in 2023, with a possible continuation of the meagre recovery in 2024 and 2025. The terms-of-trade may remain favourable in the short run, but if world energy prices subside, the positive margins will diminish. The government may revert to some populist measures in order to prevent widespread discontent among the people. The gradual recovery in private consumption will probably be the main growth factor in 2023 and beyond. At the same time, the rigid price controls seem to have run their course. Given the relatively loose policy stance, and the weakening of the currency in recent months, annual inflation in 2023 will likely remain high. The pressure on Belarus's external balances is expected to increase.

Table 5.2 / Belarus: Selected economic indicators

	2019	2020	2021	2022 <sup>1)</sup>	2023	2024	2025
					Forecast		
Population, th pers., average	9,420	9,380	9,303	9,200	9,150	9,100	9,050
Gross domestic product, BYN m, nom.	134,732	149,721	176,879	191,374	217,000	244,700	274,500
annual change in % (real)	1.4	-0.7	2.4	-4.7	1.3	1.6	2.0
GDP/capita (EUR at PPP)	13,260	13,280	14,760	14,520	.	.	.
Consumption of households, BYN m, nom.	71,630	77,101	88,839	102,151	.	.	.
annual change in % (real)	5.1	-1.1	4.9	-0.7	1.5	2.5	2.5
Gross fixed capital form., BYN m, nom.	36,424	37,977	39,924	37,167	.	.	.
annual change in % (real)	6.2	-6.3	-5.9	-17.5	-2.0	0.5	1.5
Gross industrial production							
annual change in % (real)	1.0	-0.7	6.5	-5.4	1.0	2.0	2.0
Gross agricultural production							
annual change in % (real)	3.4	4.4	-4.0	3.6	.	.	.
Construction industry							
annual change in % (real)	5.1	-1.6	-13.3	-11.9	.	.	.
Employed persons, LFS, th, average	4,909	4,885	4,851	4,847	4,800	4,780	4,780
annual change in %	0.2	-0.5	-0.7	-0.1	-1.0	-0.5	0.0
Unemployed persons, LFS, th, average	213	206	197	180	190	199	199
Unemployment rate, LFS, in %, average	4.2	4.0	3.9	3.6	3.8	4.0	4.0
Reg. unemployment rate, in %, eop	0.2	0.2	0.1	0.1	.	.	.
Average monthly gross wages, BYN	1,093	1,255	1,444	1,631	1,810	2,010	2,230
annual change in % (real, gross)	6.5	8.8	5.1	-1.8	-1.0	0.0	1.0
Consumer prices, % p.a.	5.6	5.5	9.5	15.2	12.0	11.0	10.0
Producer prices in industry, % p.a. <sup>2)</sup>	6.3	5.6	12.1	15.1	14.0	12.0	10.0
General governm. budget, nat. def., % of GDP							
Revenues	40.0	35.5	35.7	35.0	36.0	37.0	38.0
Expenditures	37.6	37.2	35.6	37.0	39.0	39.0	39.0
Deficit (-) / surplus (+)	2.4	-1.7	0.2	-2.0	-3.0	-2.0	-1.0
General gov. gross debt, nat. def., % of GDP <sup>3)</sup>	41.0	47.5	40.3	42.0	41.0	40.0	39.0
Stock of loans of non-fin. private sector, % p.a.	10.0	21.4	3.3	3.2	.	.	.
Non-performing loans (NPL), in %, eop <sup>4)</sup>	4.6	4.8	5.3	4.9	.	.	.
Central bank policy rate, % p.a., eop <sup>5)</sup>	9.00	7.75	9.25	12.00	10.0	9.0	8.0
Current account, EUR m <sup>6)</sup>	-1,115	-156	1,830	2,549	1,000	900	800
Current account, % of GDP	-1.9	-0.3	3.1	3.7	1.5	1.2	1.0
Exports of goods, BOP, EUR m <sup>6)</sup>	28,932	24,890	33,189	35,763	33,800	34,300	34,700
annual change in %	1.8	-14.0	33.3	7.8	-5.5	1.5	1.2
Imports of goods, BOP, EUR m <sup>6)</sup>	32,684	26,637	33,755	35,599	34,700	35,200	35,600
annual change in %	7.0	-18.5	26.7	5.5	-2.5	1.4	1.1
Exports of services, BOP, EUR m <sup>6)</sup>	8,628	7,703	8,749	8,760	8,900	9,300	9,700
annual change in %	14.9	-10.7	13.6	0.1	1.6	4.5	4.3
Imports of services, BOP, EUR m <sup>6)</sup>	5,237	4,249	4,815	4,792	4,900	5,100	5,300
annual change in %	14.0	-18.9	13.3	-0.5	2.3	4.1	3.9
FDI liabilities, EUR m <sup>6)</sup>	1,139	1,221	1,044	1,536	.	.	.
FDI assets, EUR m <sup>6)</sup>	-3	72	-67	174	.	.	.
Gross reserves of CB excl. gold, EUR m <sup>6)7)</sup>	6,265	3,604	4,687	7,442	.	.	.
Gross external debt, EUR m <sup>6)</sup>	36,487	34,230	37,094	37,303	42,700	42,300	41,800
Gross external debt, % of GDP	63.2	63.8	62.8	54.1	63.0	57.0	54.0
Average exchange rate BYN/EUR	2.3342	2.7888	2.9923	2.7755	3.20	3.30	3.55

1) Preliminary and wiiw estimates. - 2) Domestic output prices. - 3) Including publicly guaranteed debt. - 4) Doubtful, bad and small part of supervised assets. - 5) Refinancing rate of CB. - 6) Converted from USD. - 7) Data 2022 including gold.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.