

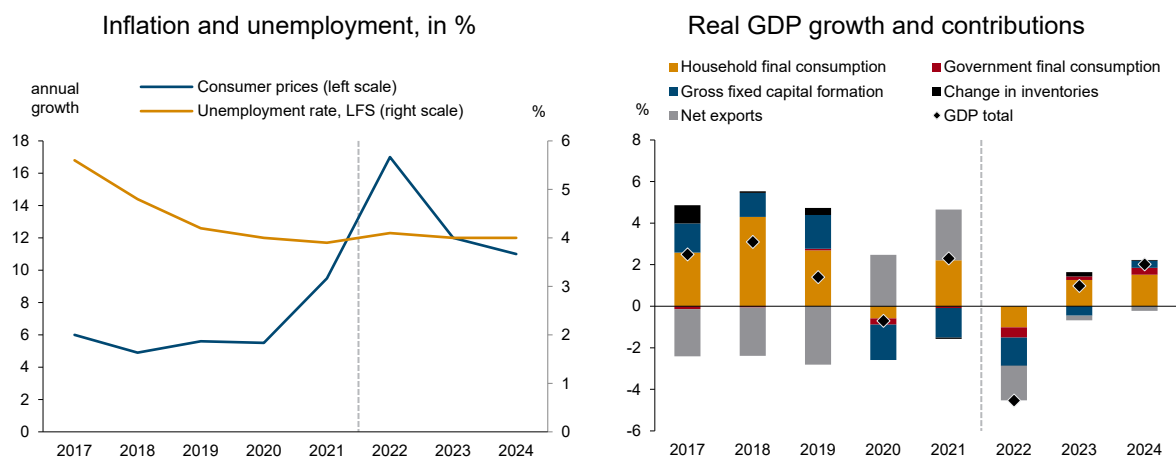


BELARUS: Struggling to loosen the grip of sanctions

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The economy is in recession, as the impact of the war in Ukraine has been amplified by the new Western sanctions. The authorities have adopted some policy measures aimed at damping the shocks and have negotiated new support agreements with Russia. Public finances have been under considerable strain, inflation has kept rising, and problems have also emerged over the servicing of the external debt. GDP is expected to fall by 4.5% in 2022, and the prospects for the coming years remain bleak.

Figure 6.2 / Belarus: Main macroeconomic indicators



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

Belarus's economy is in deep recession. The war in Ukraine has produced two main shocks for Belarus, as an ally of Russia: a new set of severe Western economic sanctions and the loss of the important Ukrainian market. The economy nosedived in Q2, which resulted in GDP falling by 4.2% in the first half of the year, while industrial production plunged by more than 10%. This was coupled with a sharp drop in the exchange rate and an upsurge in inflation. Any assessment of the current economic situation is complicated by the fact that the authorities have stopped publishing certain key statistics and have restricted access to some data sources. The short-term indicators available suggest that probably the bottom of the recession was reached mid-year. Thus, the monthly statistics suggest that in July and August there was a deceleration of the slowdown in gross industrial production and aggregate output, compared to the previous couple of months. A good harvest also seems to have contributed to the better aggregate performance in the summer months.

The authorities have adopted a range of policy measures aimed at mitigating the adverse effects of the sanctions and the war in Ukraine. These have included tax reliefs and generous directed lending to large state-owned companies. In turn, the Belarusian Development Bank has considerably increased the credit aimed at export promotion and import substitution, as well as lending to small and medium-sized businesses. Some large, state-owned banks have been recapitalised with capital injections from the budget to enable them to raise their credit activity. The central bank has maintained a relatively loose monetary stance, with its policy rate (at 12% since March) well below expected inflation.

In addition, Belarus has negotiated a set of new support agreements with Russia. The country has retained its preferential access to Russian gas at a price level that is now a fraction of current European prices. The two parties agreed further bilateral easing of access to their respective markets, where trade will increasingly be denominated in Russian roubles. Russia committed itself to supporting the establishment of new transportation routes for Belarusian exports. The two countries are also negotiating a partial rescheduling of Belarus's debt to Russia, as well as a large new loan from the Russian government. The new credit is intended for the funding of joint import-substitution projects.

Thanks to the policy support measures, Belarus has managed to reorient some of its exports to new markets. Exports to and imports from Russia have reached record high levels, while China has replaced Ukraine as Belarus's second-largest trading partner. Albeit at a reduced level, Belarus has kept on exporting refined oil products, benefiting from soaring prices on the international markets. Consequently, the value of total Belarusian trade flows has not been as badly hit by the external shocks as was earlier expected. Moreover, thanks to its continued access to cheap oil and gas supplies from Russia, in the first half year Belarus enjoyed a significant improvement in its international terms of trade. Trade reorientation will probably be more challenging on the import side, especially as regards hi-tech imports from the West; but the macroeconomic impact of such changes will not be immediate.

After an initial plunge, the Belarusian rouble recovered rapidly. By June, the exchange rate against the US dollar and the euro had recovered to approximately the same level as at the end of 2021. Meanwhile, the Belarusian currency depreciated considerably against the Russian rouble: the significant rise in Belarus's trade with Russia contributed to growing demand for Russian roubles. At the same time, the forced reorientation of certain trade flows to and from new markets resulted in declining demand among local importers for US dollars and euros. Demand for these currencies among households also dropped, due to the restrictions on travel imposed as part of the sanctions. Given the country's disconnect from the international financial markets, the authorities did not even need to introduce hard capital controls to contain capital flight.

In current US dollar terms, exports of goods in the first half of 2022 were just 2.8% down on the same period the previous year, while imports were 5.5% down. However, the dollar value of trade flows also reflect the exchange-rate movements in this period and, in particular, the appreciation of the Russian rouble against the dollar. As the substantial exchange of goods and services with Russia is now mostly conducted in Russian roubles, this produces inflated figures for Belarusian trade flows in current US dollars; in volume terms, both exports and imports dropped more substantially.

Inflation surged in March and April, and by June consumer price inflation was 17.4% higher than a year earlier, outstripping the rise in incomes. Real disposable income in the first half of the year fell by 2.7%, compared to the same period of 2021, depressing consumer confidence and demand.

Although inflation moderated somewhat in the months that followed, the inflationary pressures have not totally disappeared. In part, this can be attributed to the depreciation of the local currency vis-à-vis the Russian rouble, as a large and growing share of Belarusian imports are coming from Russia.

Public finances have been under considerable strain on both the revenue and the expenditure side. Given the considerable weakening of economic activity, real public revenue fell below the budgetary targets. However, what is now driving the fiscal balance most strongly into negative territory is the surge in extraordinary expenditure, as most of the policy support measures mentioned above entail large-scale unforeseen public spending. The financing of the fiscal deficit has been posing growing problems for the authorities. Being totally isolated from the Western financial markets, Belarus has sought to expand its access to the Russian market and has been placing increasing quantities of government bonds there.

Problems have also emerged over servicing the large external debt. The agreement to reschedule part of the debt to Russia did help somewhat to alleviate the burden of the overall debt servicing. Like Russia, Belarus started servicing some of its foreign dollar obligations in (Belarussian) roubles, which prompted some rating agencies to declare its partial default. However, the real challenge ahead will come in February 2023, when a USD 800m Eurobond reaches maturity and is due to be repaid. The main problem here is not so much the availability of forex funds for debt repayment, but the disconnect of the Belarusian banking sector from the international financial system, due to the Western sanctions.

The forecast for 2022 is basically unchanged from the summer forecast. We anticipate a GDP drop of some 4.5% in 2022, with both domestic absorption and net exports expected to contribute negatively to GDP growth for the year as a whole. Due to both the drop in domestic demand and the improved terms of trade, the current account balance should remain in positive territory. Average annual consumer price inflation and producer price inflation for the year as a whole are expected to be well above 15%, while the fiscal deficit may reach record levels.

The prospects for the coming years are also unchanged from the summer forecast and remain bleak. We see no prospect either of a marked recovery or of visible disinflation in 2023 and 2024. The positive (but meagre) GDP growth envisaged for the next two years reflects an expectation that there will be no severe future shocks, so that the current trend of slow emergence from the slump will continue. The fiscal situation will remain precarious, while the servicing of the foreign debt will present fresh headaches for the authorities.

Table 6.2 / Belarus: Selected economic indicators

| | 2019 | 2020 | 2021 ¹⁾ | 2021 January-June | 2022 | 2022 Forecast | 2023 Forecast | 2024 |
|--|---------|---------|--------------------|----------------------|--------|------------------|------------------|---------|
| Population, th pers., average | 9,420 | 9,380 | 9,303 | . | . | 9,200 | 9,150 | 9,100 |
| Gross domestic product, BYN m, nom. | 134,732 | 149,721 | 173,153 | 78,465 | 87,173 | 193,400 | 218,700 | 247,700 |
| annual change in % (real) | 1.4 | -0.7 | 2.3 | 3.5 | -4.3 | -4.5 | 1.0 | 2.0 |
| GDP/capita (EUR at PPP) | 13,670 | 13,520 | 14,540 | . | . | . | . | . |
| Consumption of households, BYN m, nom. | 71,630 | 77,101 | 87,768 | 40,415 | 46,945 | . | . | . |
| annual change in % (real) | 5.1 | -1.1 | 4.3 | 3.7 | 0.6 | -2.0 | 2.5 | 3.0 |
| Gross fixed capital form., BYN m, nom. | 36,424 | 37,977 | 39,141 | 16,274 | 16,309 | . | . | . |
| annual change in % (real) | 6.2 | -6.3 | -5.6 | -7.4 | -13.0 | -6.0 | -2.0 | 1.5 |
| Gross industrial production | | | | | | | | |
| annual change in % (real) | 1.0 | -0.7 | 6.5 | 10.4 | -5.2 | -6.0 | 1.0 | 2.0 |
| Gross agricultural production | | | | | | | | |
| annual change in % (real) | 2.9 | 4.8 | -4.2 | -0.3 | -3.0 | . | . | . |
| Construction industry | | | | | | | | |
| annual change in % (real) | 5.1 | -1.6 | -14.0 | -16.6 | -13.3 | . | . | . |
| Employed persons, LFS, th, average | 4,909 | 4,885 | 4,851 | 4,830 | 4,814 | 4,800 | 4,750 | 4,750 |
| annual change in % | 0.2 | -0.5 | -0.7 | -0.2 | -0.3 | -1.0 | -1.0 | 0.0 |
| Unemployed persons, LFS, th, average | 213 | 206 | 197 | 205 | 185 | 205 | 198 | 198 |
| Unemployment rate, LFS, in %, average | 4.2 | 4.0 | 3.9 | 4.1 | 3.7 | 4.1 | 4.0 | 4.0 |
| Reg. unemployment rate, in %, eop | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | . | . | . |
| Average monthly gross wages, BYN | 1,093 | 1,255 | 1,444 | 1,367 | 1,569 | 1,670 | 1,850 | 2,050 |
| annual change in % (real, gross) | 6.5 | 8.8 | 5.1 | 5.9 | 0.1 | -1.0 | -1.0 | 0.0 |
| Consumer prices, % p.a. | 5.6 | 5.5 | 9.5 | 8.8 | 14.6 | 17.0 | 12.0 | 11.0 |
| Producer prices in industry, % p.a. ²⁾ | 6.3 | 5.6 | 12.1 | 10.4 | 15.6 | 18.0 | 14.0 | 12.0 |
| General governm. budget, nat. def., % of GDP | | | | | | | | |
| Revenues | 40.0 | 35.5 | 36.5 | . | . | 35.0 | 37.0 | 38.0 |
| Expenditures | 37.6 | 37.2 | 36.3 | . | . | 39.0 | 39.0 | 39.0 |
| Deficit (-) / surplus (+) | 2.4 | -1.7 | 0.2 | . | . | -4.0 | -2.0 | -1.0 |
| General gov. gross debt, nat. def., % of GDP ³⁾ | 41.0 | 47.5 | 41.2 | . | . | 53.0 | 54.0 | 55.0 |
| Stock of loans of non-fin. private sector, % p.a. | 10.0 | 21.4 | 3.3 | 7.7 | 8.4 | . | . | . |
| Non-performing loans (NPL), in %, eop ⁴⁾ | 4.6 | 4.8 | 5.3 | . | . | . | . | . |
| Central bank policy rate, % p.a., eop ⁵⁾ | 9.00 | 7.75 | 9.25 | 8.5 | 12.0 | 12.0 | 10.0 | 8.0 |
| Current account, EUR m ⁶⁾ | -1,115 | -156 | 1,827 | 264 | 286 | 1,500 | 1,300 | 1,100 |
| Current account, % of GDP | -1.9 | -0.3 | 3.2 | 1.0 | 1.0 | 2.2 | 1.8 | 1.4 |
| Exports of goods, BOP, EUR m ⁶⁾ | 28,932 | 24,890 | 33,189 | 14,384 | 15,460 | 35,900 | 36,400 | 37,400 |
| annual change in % | 1.8 | -14.0 | 33.3 | 26.2 | 7.5 | 8.2 | 1.4 | 2.7 |
| Imports of goods, BOP, EUR m ⁶⁾ | 32,684 | 26,637 | 33,755 | 14,716 | 15,384 | 36,900 | 37,400 | 38,400 |
| annual change in % | 7.0 | -18.5 | 26.7 | 18.5 | 4.5 | 9.3 | 1.4 | 2.7 |
| Exports of services, BOP, EUR m ⁶⁾ | 8,628 | 7,703 | 8,740 | 4,039 | 4,054 | 9,500 | 10,100 | 10,400 |
| annual change in % | 14.9 | -10.7 | 13.5 | 8.0 | 0.4 | 8.7 | 6.3 | 3.0 |
| Imports of services, BOP, EUR m ⁶⁾ | 5,237 | 4,249 | 4,810 | 2,186 | 2,045 | 5,200 | 5,600 | 5,900 |
| annual change in % | 14.0 | -18.9 | 13.2 | 9.4 | -6.4 | 8.1 | 7.7 | 5.4 |
| FDI liabilities, EUR m ⁶⁾ | 1,139 | 1,221 | 1,044 | 941 | 1,646 | 1,000 | . | . |
| FDI assets, EUR m ⁶⁾ | -3 | 72 | -67 | 21 | 11 | 100 | . | . |
| Gross reserves of CB excl. gold, EUR m ⁶⁾ | 6,265 | 3,604 | 4,687 | 3,837 | 4,143 | . | . | . |
| Gross external debt, EUR m ⁶⁾ | 36,487 | 34,230 | 37,094 | 35,492 | 41,788 | 43,200 | 46,500 | 47,500 |
| Gross external debt, % of GDP | 63.2 | 63.8 | 64.1 | 61.3 | 60.5 | 62.5 | 63.7 | 61.3 |
| Average exchange rate BYN/EUR | 2.3342 | 2.7888 | 2.9923 | 3.1010 | 2.9699 | 2.80 | 3.00 | 3.20 |

1) Preliminary. - 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.

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