

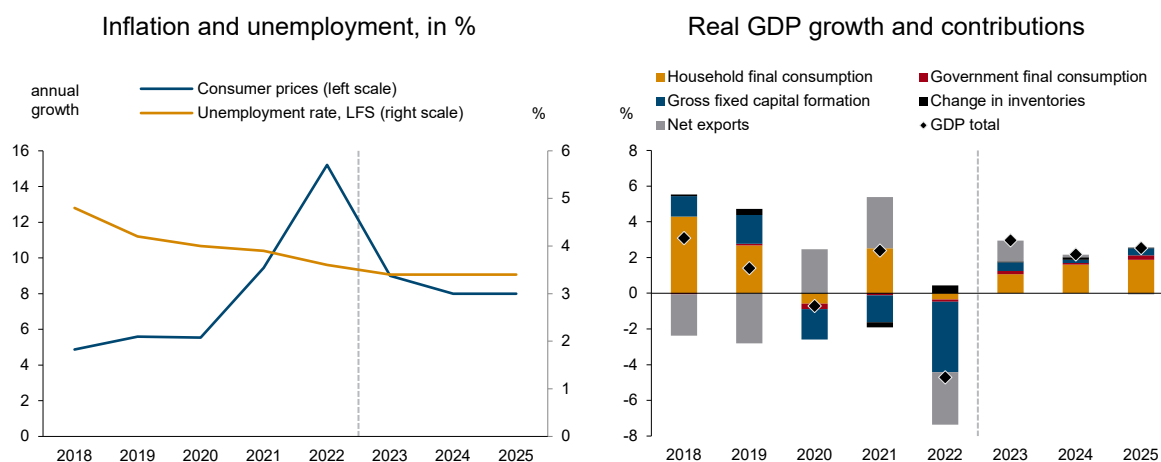


BELARUS: Recovery gathering pace, but the future remains uncertain

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In 2023, Belarus's economy has performed considerably better than expected. While this largely reflects recovery from a low base, there have also been signs of adjustment to the effects of Western sanctions. With Russia's assistance, Belarus has remodelled some logistical export chains. The authorities have maintained an accommodative policy stance, combining fiscal stimulus with monetary easing. We expect GDP to grow by 3.0% in 2023, and then to moderate to 2.2% and 2.5% in 2024 and 2025, respectively.

Figure 6.2 / Belarus: Main macroeconomic indicators



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

By any measure, Belarus's economy has performed considerably better in 2023 than was expected by most analysts. Economic growth accelerated in Q2, with GDP growing by 4.1% year on year (after a decline of 2.9% in Q1). The recovery in industry began earlier: gross industrial output grew by 2.2% in Q1, to be followed by a 10.0% surge in Q2. After a prolonged plunge, Belarusian exports also started to recover, so that by mid-year their annualised value had almost reached its pre-sanctions level. In another sign of an upturn, investment activity – which had been subdued over the previous couple of years – started to recover in Q2.

In statistical terms, these outcomes largely reflect the effects of the shock to the Belarusian economy in Q2 2022 caused by the Western sanctions imposed after Russia's invasion of Ukraine. But leaving aside the purely statistical effect, the performance in 2023 indicates a considerable degree of adjustment to the new hostile external environment. This has largely been facilitated by Russia's accommodative policies, which have resulted in a further opening-up of Russia's markets to

Belarusian products previously exported to Western markets and the facilitation of new trade corridors for the export of Belarusian products to other markets – on top of the traditional support channels, such as the supply of cheap oil and gas.

Thanks to Russia's assistance, Belarus has been able to remodel some logistical chains for key export products. Thus, it is estimated that in 2023 Belarus will manage to treble its exports to third countries via Russian ports, compared to 2022. In particular, according to a statement by high-level Belarusian officials, the country is now capable of shipping about 1m tonnes of potash fertilisers per month through Russian ports, meaning up to 12m tonnes exported per year. For reference, the average annual export of potash from Belarus in previous years was in the region of 10m tonnes.

Following the imposition of Western sanctions, the Belarusian authorities slapped an embargo on the publication of certain detailed trade statistics, including commodity composition and direction of trade. Therefore, it is not possible to trace precisely the actual reorientation of trade flows that has occurred in the most recent period. Nevertheless, the available data – as well as some mirror statistics – suggest that there has been a considerable further reorientation of exports towards Russia and certain Asian markets. For example, only in H1 2023, China imported from Belarus potash fertilisers worth USD 1bn – almost double the level of the same period in 2022. For comparison, the pre-sanctions value of Belarusian worldwide exports of potash fertilisers amounted to some USD 3.6bn. China has also considerably increased its imports of timber and foodstuffs from Belarus.

Belarus has continued its policy of providing a fiscal stimulus to the business sector. The government has pumped significant equity into the capital base of some key state-owned industrial firms. In addition, substantial new fiscal stimulus for the business sector has been channelled through the Belarusian Development Bank.

The central bank has also considerably eased its monetary stance. The key policy rate was trimmed on five occasions in H1, resulting in a cumulative 2.25 percentage-point reduction since the end of 2022 and bringing its level to 9.5% in July. The central bank also started actively applying policies of quantitative easing, through the massive purchase of government bonds and foreign currencies, effectively injecting significant liquidity into the economy. The expansionary monetary stance resulted in lower interest rates and contributed to increased borrowing by firms and households – which, in turn, supported economic activity.

The central bank's moves were facilitated by the ongoing process of disinflation. H1 2023 was marked by lower imported inflation, especially in the commodity segment, while the residual effects of the price controls introduced in Q4 2022 continued to be felt. Consequently, the pace at which the price of consumer goods rose (both food and non-food) continued to moderate, and it was mainly consumer services that had a pro-inflationary effect. Within the latter group, the main inflation driver was non-regulated consumer services. This suggests a possible build-up of suppressed inflation that could be released if price controls are lifted.

The exchange rate against the dollar and the euro continued to closely track that of the Russian rouble – and the general trend in 2023 has similarly been one of depreciation. However, since the beginning of the year the Belarusian rouble has appreciated against the Russian currency, which is now the main factor affecting the terms of trade and international competitiveness.

Given the continued exodus of qualified personnel, labour shortages have kept mounting, generating upward pressure on wages. Coupled with the soft stance of income policy regarding wages in the public sector and pensions, this has resulted in a considerable rise in real earnings: the real disposable income of the population in the period January-July was 4.5% higher than a year earlier. While this has supported the recovery of private consumption, further unchecked income rises could turn into a pro-inflationary factor.

It should be noted that the recovery has been uneven and has not extended to all sectors. The IT sector has been one of the main casualties of Western sanctions, as many technology firms have quit the country. In the course of 2023, the recession in this sector has been deepening. It is estimated that the value added produced in the IT sector in Q2 2023 dropped by 17% year on year. According to preliminary estimations, the 2023 harvest will also be below expectations, due partly to unfavourable weather conditions.

Compared to the previous two years – and reflecting the upturn in domestic demand – the current account balance has weakened in 2023. Nevertheless, for the year as a whole it may still remain in positive territory.

Belarus continues to service its foreign obligations in Belarusian roubles, claiming that the Western sanctions make it technically impossible for it to do so in USD or euro. In consequence, Moody's has further lowered Belarus's sovereign rating from Ca to C. However, in practice this move will have no tangible effect on the Belarusian economy, since the country has no access to international financial markets anyway.

The current upturn, albeit significant, mostly represents a recovery from a low base, and the current positive economic trends cannot be expected to last long. The period 2021-2022 was characterised by underinvestment, and many production facilities are worn out and underperforming. The opportunities for accelerated growth are limited on account of the existing supply constraints, in terms of both capital and labour. The period of disinflation also seems to have come to an end: it is expected that in the coming months the price dynamics will reverse, due to the loose macroeconomic stance.

Given the recent developments in the real economy, we have raised our GDP growth forecast for 2023 to 3.0% – 1.7 percentage points up on the spring forecast. In view of the impetus received, most components of final demand (both domestic and external) are expected to contribute positively to the overall growth. Average annual consumer price inflation in 2023 is likely to be well below the previous year's level and may move into single digits.

Overall, the downside risks remain high and the current upturn is not likely to translate into a sustained recovery. Growth will continue to be mostly demand driven, as the authorities will maintain the accommodative policy stance. Given the existing constraints, we expect GDP to grow by 2.2% and 2.5% in 2024 and 2025, respectively. Under these circumstances, we also expect the current account in the years ahead to move into the red, but that is not likely to pose a threat to macroeconomic stability. Given the soft policy stance, inflation will remain in high single digits.

Table 6.2 / Belarus: Selected economic indicators

	2020	2021	2022 ¹⁾	2022 January-June	2023	2023 Forecast	2024 Forecast	2025
Population, th pers., average	9,380	9,303	9,228	.	.	9,150	9,100	9,050
Gross domestic product, BYN m, nom.	149,721	176,879	191,374	87,173	97,577	214,800	237,000	262,400
annual change in % (real)	-0.7	2.4	-4.7	-4.4	2.0	3.0	2.2	2.5
GDP/capita (EUR at PPP)	13,310	14,540	14,660	.	.	.	.	.
Consumption of households, BYN m, nom.	77,101	88,839	102,151	.	.	.	.	.
annual change in % (real)	-1.1	4.9	-0.7	.	.	2.0	3.0	3.5
Gross fixed capital form., BYN m, nom.	37,977	39,924	37,167	.	.	.	.	.
annual change in % (real)	-6.3	-5.9	-17.5	.	.	2.5	1.0	2.0
Gross industrial production								
annual change in % (real)	-0.7	6.5	-5.4	-5.2	6.0	4.0	2.0	2.5
Gross agricultural production								
annual change in % (real)	4.4	-4.0	3.6	.	.	.	.	.
Construction industry								
annual change in % (real)	-1.6	-13.3	-10.7	-13.3	12.1	.	.	.
Employed persons, LFS, th, average	4,885	4,851	4,847	4,814	4,773	4,800	4,780	4,780
annual change in %	-0.5	-0.7	-0.1	-0.3	-0.8	-1.0	-0.5	0.0
Unemployed persons, LFS, th, average	206	197	180	185	172	169	168	168
Unemployment rate, LFS, in %, average	4.0	3.9	3.6	3.7	3.5	3.4	3.4	3.4
Reg. unemployment rate, in %, eop	0.2	0.1	0.1	0.2	0.1	.	.	.
Average monthly gross wages, BYN	1,255	1,444	1,633	1,569	1,795	1,870	2,080	2,290
annual change in % (real, gross)	8.8	5.1	-1.8	0.1	7.4	5.0	3.0	2.0
Consumer prices, % p.a.	5.5	9.5	15.2	14.6	6.6	9.0	8.0	8.0
Producer prices in industry, % p.a. ²⁾	5.6	12.2	15.2	15.6	7.8	10.0	9.0	9.0
General governm. budget, nat. def., % of GDP								
Revenues	35.5	35.7	36.5	.	.	36.0	37.0	38.0
Expenditures	37.2	35.6	38.0	.	.	38.0	38.0	38.0
Deficit (-) / surplus (+)	-1.7	0.2	-1.5	.	.	-2.0	-1.0	0.0
General gov. gross debt, nat. def., % of GDP ³⁾	47.5	40.3	42.0	.	.	41.0	40.0	39.0
Stock of loans of non-fin. private sector, % p.a.	21.4	3.3	3.2	8.4	5.4	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	4.8	5.3	4.9	.	.	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	7.75	9.25	12.00	12.0	9.5	9.5	9.0	8.0
Current account, EUR m ⁶⁾	-156	1,830	2,396	343	-1,425	100	-100	-500
Current account, % of GDP	-0.3	3.1	3.5	1.2	-4.5	0.1	-0.1	-0.7
Exports of goods, BOP, EUR m ⁶⁾	24,890	33,189	35,838	15,582	17,667	37,000	37,500	38,000
annual change in %	-14.0	33.3	8.0	8.3	13.4	3.2	1.4	1.3
Imports of goods, BOP, EUR m ⁶⁾	26,637	33,755	35,471	15,346	18,811	38,000	38,900	39,800
annual change in %	-18.5	26.7	5.1	4.3	22.6	7.1	2.4	2.3
Exports of services, BOP, EUR m ⁶⁾	7,703	8,749	8,760	4,066	3,898	8,300	8,800	9,300
annual change in %	-10.7	13.6	0.1	0.7	-4.1	-5.2	6.0	5.7
Imports of services, BOP, EUR m ⁶⁾	4,249	4,815	4,780	2,028	2,599	5,100	5,600	6,000
annual change in %	-18.9	13.3	-0.7	-7.3	28.2	6.7	9.8	7.1
FDI liabilities, EUR m ⁶⁾	1,221	1,044	1,536	1,646	2,012	1,900	.	.
FDI assets, EUR m ⁶⁾	72	-67	174	11	23	100	.	.
Gross reserves of CB excl. gold, EUR m ⁶⁾	3,604	4,687	4,494	4,143	4,105	.	.	.
Gross external debt, EUR m ⁶⁾	34,230	37,080	37,349	41,815	33,746	42,300	43,900	45,900
Gross external debt, % of GDP	63.8	62.7	54.2	60.6	50.3	63.0	63.0	63.0
Average exchange rate BYN/EUR	2.7888	2.9923	2.7755	2.9699	3.0626	3.20	3.40	3.60

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.