

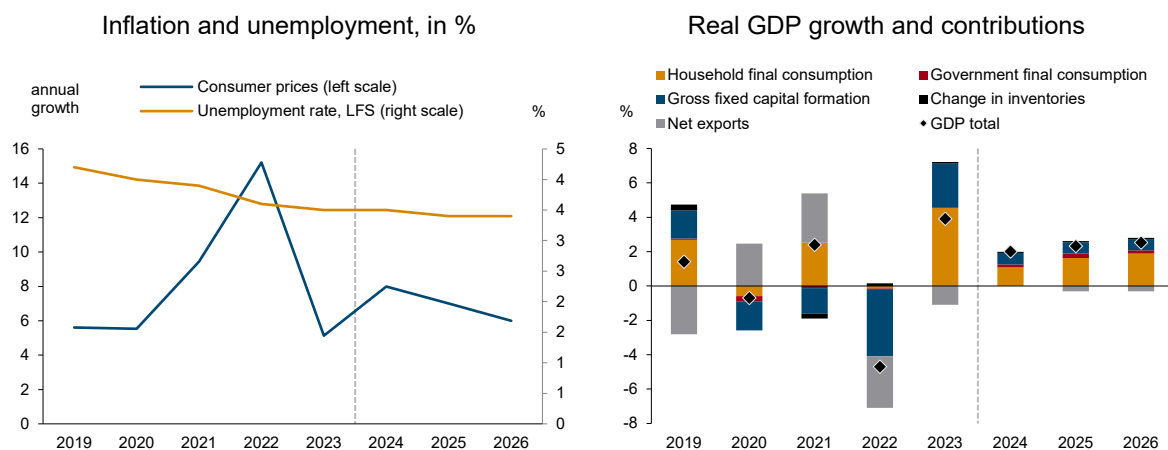


BELARUS: With recovery over, sluggish growth lies ahead

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In 2023, the economy almost totally recouped the losses incurred the previous year as a result of the Western sanctions. GDP grew by 3.9%, underpinned by a widening of Russia's economic support and accommodative domestic policies. Inflation slowed considerably. However, the indications are that this recovery has come to an end – and the short-term prospects are not propitious. GDP growth is expected to slow to some 2% in 2024 and is likely to remain sluggish in the years to come.

Figure 6.2 / Belarus: Main macroeconomic indicators



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

Last year saw a strong recovery in the Belarusian economy. GDP grew by 3.9%, overshooting even the official growth target of 3.8%. Meanwhile, industrial production surged by 7.7% in annual terms and there was a notable recovery in construction. Exports likewise grew robustly, as Belarus managed to find new markets for a significant share of the exports it had previously shipped to Western countries. Thanks to the strong recovery, the economy almost totally recouped the losses incurred the previous year as a result of the Western sanctions.

The recovery was driven by an upturn in domestic demand. Both private consumption and gross fixed capital formation surged, providing positive contributions to GDP growth. By contrast, net exports contributed negatively, as real imports outstripped exports by a large margin.

This turnaround was underpinned by accommodative domestic policies. The government maintained an interventionist policy stance, providing broad support to both supply and demand. Directed credit by state-owned banks to state-owned firms (an instrument supporting the government's

industrial policy) increased in both size and scope, focusing particularly on supporting the process of export reorientation. The Belarusian Development Bank, which is another arm of the government, also increased its credit exposure (mostly consisting of export and investment support to small and medium-sized businesses) by 23%.

The support from Russia was another key factor behind the recovery of Belarus's industry. One of the important avenues for such support was the facilitation of the re-routing of merchandise through Russian ports after the EU closed its borders to much of Belarus's exports. Rail freight through Russia increased 2.3 times in 2023 compared to the previous year. Thanks to the new export routes, Belarus's oil-processing output recovered almost entirely to its pre-war level. Russia also further reduced the selling price of Russian oil to Belarus: it is estimated that in 2023 alone Belarus benefited from an implicit subsidy of USD 1.9bn thanks to the oil price discount.

The recovery, however, was patchy The downturn in transportation and especially in information and communication technology (ICT) continued for the second year in a row. While some agricultural subsectors fared well, the output of cereals dropped by 9.3% compared to the previous year, due to a bad harvest.

The government preserved many of the price controls introduced back in 2022. The accumulated inertia of this move contributed to notable disinflation: average annual consumer price inflation (CPI) in 2023 was 5.1% – down from 15.2% the previous year. Producer prices followed a similar dynamics. Policy intervention also sought to boost incomes by raising pensions and wages in the public sector. Thanks to the combined effect of these policies, real wages in 2023 surged by almost 11.0%, while real disposable incomes rose by 6.3%. In turn, rising real incomes boosted personal consumption.

The policy stance of the central bank was somewhat ambiguous, as it kept its intervention rate almost unchanged in 2023, at around 10%. Against the background of rapidly falling inflation, this meant that real interest rates gradually changed from negative to positive in the course of the year. However – and somewhat counterintuitively – credit activity was on the rise in 2023, mostly affected by improved business confidence. The central bank's policy stance in this period had little effect on consumer price dynamics either, as the latter was mostly influenced by the administrative price controls.

The geographical composition of Belarus's foreign trade continued its transformation. The exact parameters of this change are not publicly available, since the authorities have imposed an embargo on a significant portion of statistical data, including the composition of trade. However, according to anecdotal evidence, Russia has further expanded its dominant share of Belarus's trade, while China is now firmly ensconced in second position. In particular, Belarus doubled its exports of potash fertilisers to China and significantly increased the export of foodstuffs. In turn, China is gradually becoming Belarus's main supplier of technological equipment.

The make-up of the Belarusian forex market also altered radically after 2022, reflecting the changing composition of foreign trade. Given the restraining effect of the Western sanctions, the share of the US dollar and the euro has been shrinking, while that of the renminbi has been expanding. According to statements by the National Bank of the Republic of Belarus, at the end of 2023 the renminbi accounted for about 10% of all foreign trade transactions – approximately the same as the share of the US

dollar. At the beginning of 2024, transactions on the Belarusian currency exchange were dominated by the Russian rouble (accounting for some 50% of transactions) and the renminbi (some 30%).

There are many indications, however, that the period of benign recovery in Belarus has come to an end. Recent short-term indicators suggest that as from around mid-2023, the growth in industrial output started to slow and that this has continued in the first months of 2024. At present, many Belarusian manufacturers are operating at almost full capacity and are facing supply constraints. In the first place, this concerns labour: given the recent mass exodus of the working-age population, the economy is facing severe labour shortages in many occupation categories. At the same time, a number of production facilities are obsolete, but firms face problems in upgrading them due to the Western sanctions.

The real effective exchange rate depreciated in the first half of 2023, but subsequently this trend was reversed. Of late, the local currency has been appreciating vis-à-vis the Russian rouble at par with the upturn in demand for that currency, and this development has also dominated the dynamics of the real effective exchange rate. At the same time, after declining in the first half of 2023, unit labour costs started to rise thereafter, reflecting the slowdown in output and the continued rise in wages. Overall, these trends point to deteriorating international competitiveness, which is likely to act as a deterrent to the further expansion of exports.

The reliance on domestic demand-driven growth has led to a considerable worsening of the current account balance. If the real exchange rate appreciation continues, it could lead to a further aggravation of the situation with the external balances. At the same time, the possible economic slowdown in Russia could suggest a diminishing external impetus to the Belarusian economy in the short run.

The effect of price controls seems to have run its course. Inflation started gathering pace in the final months of 2023, and this trend has continued in the first months of 2024. The central bank has already signalled that its policy focus in 2024 may shift towards curbing the inflationary pressures. In January, it raised the reserve requirements in an attempt to rein in credit growth. The government, however, has indicated that it intends to continue fiscal support for the economy.

Overall, although the domestic policy stance is expected to remain largely accommodative in the short run, its effect is likely to weaken. With a diminishing external lift, GDP growth will continue to be mostly driven by domestic demand, and is expected to slow to some 2% in 2024. Inflation will rise again and the average annual rate of CPI is likely to be around 8% in 2024.

At present there is no indication that an about-turn towards robust growth is on the cards in the coming years. At the same time, the process of further adjustment to the new geopolitical reality is likely to continue. Belarus may expand its presence in new markets, so exports could also provide some impetus to growth. We expect, therefore, a possible slight strengthening of growth in 2025 and 2026.

Table 6.2 / Belarus: Selected economic indicators

	2020	2021	2022	2023 ¹⁾	2024	2025	2026
					Forecast		
Population, th pers., average	9,380	9,303	9,228	9,178	9,150	9,120	9,100
Gross domestic product, BYN m, nom.	149,721	176,879	193,741	216,100	238,100	260,700	283,300
annual change in % (real)	-0.7	2.4	-4.7	3.9	2.0	2.3	2.5
GDP/capita (EUR at PPP)	13,310	14,540	15,130	16,090	.	.	.
Consumption of households, BYN m, nom.	77,101	88,839	102,227	116,889	.	.	.
annual change in % (real)	-1.1	4.9	-0.3	8.6	2.0	3.0	3.5
Gross fixed capital form., BYN m, nom.	37,977	39,924	37,678	47,222	.	.	.
annual change in % (real)	-6.3	-5.9	-17.3	13.2	3.0	3.0	3.0
Gross industrial production							
annual change in % (real)	-0.7	6.5	-5.4	7.7	4.0	3.0	2.5
Gross agricultural production							
annual change in % (real)	4.4	-4.0	3.6	1.1	.	.	.
Construction industry							
annual change in % (real)	-1.6	-13.3	-10.7	11.4	.	.	.
Employed persons, LFS, th, average	4,885	4,851	4,847	4,801	4,780	4,760	4,740
annual change in %	-0.5	-0.7	-0.1	-0.9	-0.5	-0.5	-0.5
Unemployed persons, LFS, th, average	206	197	180	172	173	168	167
Unemployment rate, LFS, in %, average	4.0	3.9	3.6	3.5	3.5	3.4	3.4
Reg. unemployment rate, in %, eop	0.2	0.1	0.1	0.1	.	.	.
Average monthly gross wages, BYN	1,255	1,444	1,633	1,902	2,160	2,400	2,620
annual change in % (real, gross)	8.8	5.1	-1.8	10.9	5.0	4.0	3.0
Consumer prices, % p.a.	5.5	9.5	15.2	5.1	8.0	7.0	6.0
Producer prices in industry, % p.a. ²⁾	5.6	12.2	15.2	5.8	9.0	8.0	7.0
General governm. budget, nat. def., % of GDP							
Revenues	35.5	35.7	36.0	36.0	36.5	37.0	37.0
Expenditures	37.2	35.6	37.5	37.0	38.0	38.0	38.0
Deficit (-) / surplus (+)	-1.7	0.2	-1.5	-1.0	-1.5	-1.0	-1.0
General gov. gross debt, nat. def., % of GDP ³⁾	47.5	40.3	42.0	41.0	41.0	40.0	39.0
Stock of loans of non-fin. private sector, % p.a.	21.4	3.3	3.2	16.8	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	4.8	5.3	4.9	5.0	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	7.75	9.25	12.00	9.50	10.0	10.0	9.0
Current account, EUR m ⁶⁾	-156	1,830	2,418	-942	-1,400	-900	-700
Current account, % of GDP	-0.3	3.1	3.5	-1.4	-2.1	-1.3	-0.9
Exports of goods, BOP, EUR m ⁶⁾	24,890	33,189	35,838	36,360	36,100	35,200	36,100
annual change in %	-14.0	33.3	8.0	1.5	-0.7	-2.5	2.6
Imports of goods, BOP, EUR m ⁶⁾	26,637	33,755	35,471	38,537	38,400	37,500	38,000
annual change in %	-18.5	26.7	5.1	8.6	-0.4	-2.3	1.3
Exports of services, BOP, EUR m ⁶⁾	7,703	8,749	8,790	7,855	8,100	8,500	8,700
annual change in %	-10.7	13.6	0.5	-10.6	3.1	4.9	2.4
Imports of services, BOP, EUR m ⁶⁾	4,249	4,815	4,789	5,242	5,400	5,600	5,800
annual change in %	-18.9	13.3	-0.5	9.5	3.0	3.7	3.6
FDI liabilities, EUR m ⁶⁾	1,221	1,044	1,536	1,912	.	.	.
FDI assets, EUR m ⁶⁾	72	-67	174	30	.	.	.
Gross reserves of CB excl. gold, EUR m ⁶⁾	3,604	4,687	4,494	4,084	.	.	.
Gross external debt, EUR m ⁶⁾	34,230	37,080	37,349	33,134	34,000	35,000	36,000
Gross external debt, % of GDP	63.8	62.7	53.5	49.8	50.1	49.7	48.3
Average exchange rate BYN/EUR	2.7888	2.9923	2.7755	3.2479	3.50	3.70	3.80

1) Preliminary and wiiw estimates. - 2) Domestic output prices. - 3) Including publicly guaranteed debt. From 2022 wiiw estimate. - 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.