

Negative outlook due to economic sanctions

The development of the Belarusian economy was relatively stable last year: GDP growth amounted to 2.3%. In particular, high commodity prices and the associated good external economic momentum contributed to this development. The main drawback is the high inflation, which currently stands at 10.4%.

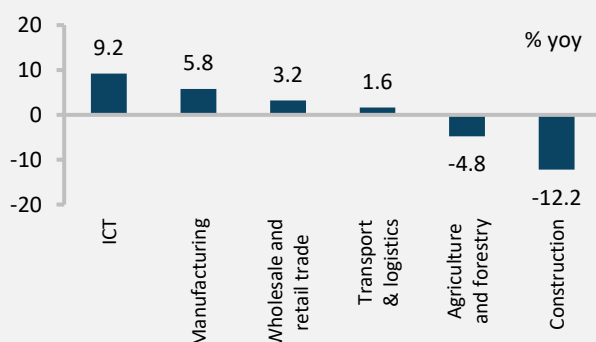
The sanctions imposed by the West in 2021 have not yet affected the country's economy but will have an impact this year and next. We forecast a significant negative effect of the sanctions of -0.8 of GDP (2023: -0.2% of GDP).

The war in Ukraine has abruptly clouded the economic outlook for Belarus in three ways. New sanctions against Belarus, spillover effects from the massive Russia sanctions, and Ukraine's high share in Belarusian exports will hit the economy hard. The enormous increase in uncertainty due to the conflict is already evident on the international financial markets.

Review: surprisingly solid growth in 2021...

The Belarusian economy ended 2021 with surprisingly solid GDP growth of 2.3%, despite the intensification of the political crisis and related sanctions. This was supported above all by high global commodity prices and the associated good external economic situation. From a sectoral perspective, the picture was mixed.

Sectoral dynamics



Source: Belstat; data for 2021

The manufacturing sector recovered (+5.8%) due to base effects and high commodity prices. The ICT sector also continued to grow very dynamically at 9.2%; the aggregate figures thus show no signs of an emigration of IT specialists so far. The construction sector, on the other hand, recorded a significant decline (-12.2%) due to the lack of public consumption; agriculture also performed very weakly with -4.8%.

... but high inflation

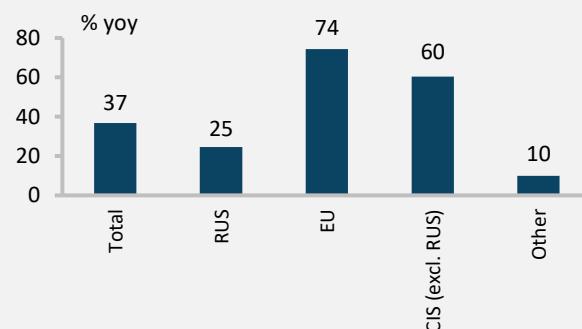
Inflation has been on the rise for some time and is currently above 10.4% (Jan-22). This development took

place against the background of the existence of administrative price controls, i.e. would probably have been even stronger without them. The National Bank reacted – after some hesitation – by raising the key interest rate twice to its current level of 9.25%. In parallel, it was attempted to reduce price pressure through further monetary policy measures.

Solid development of foreign trade

Foreign trade recovered significantly in 2021: both exports (+37%) and imports (+28%) increased substantially. Besides base effects (peak of the COVID pandemic in the previous year), high commodity prices were mainly responsible for this development, especially on the export side. It is interesting to note that exports to the EU grew strongly (+74%) despite the sanctions. As a result, EU's share in Belarusian exports also increased (from 19% to 24%), while Russia's share decreased. However, a significant weakening of the development is very likely – especially after the contracts not yet affected by the sanctions expire.

Export growth by country



Source: Belstat; data for 2021

Tense state of public finances

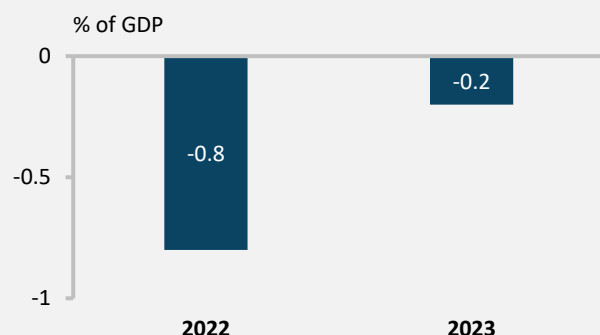
The state of public finances is not easy to assess, as different definitions of the budget deficit exist. While according to the national definition a slight surplus was achieved in 2021 (approx. 0.5% of GDP), the IMF's (broad) definition assumes a deficit of 3.9% of GDP in 2021, which is expected to decrease to 2.4% this year. Overall, a rather restrictive fiscal policy is to be expected for the time being.

Government debt is around 45% of GDP in 2021/2022, and thus relatively constant. The key issue will be the refinancing of maturing debt, which amounts to about USD 3.4 bn in 2022. Russia will play a key role in this (as in 2021), possibly in combination with the USD 1 bn increase in international reserves (currently USD 8.5 bn) following the SDR allocation by the IMF.

Past sanctions will become noticeable in 2022

The impact of sanctions remained limited in 2021, which was largely intentional: existing contracts were not sanctioned. In 2022/2023, however, a noticeable increase of their impact should be expected, which will negatively affect economic growth. In our model-based forecast for 2022, which was prepared before the current events in Ukraine, we estimated the impact of the sanctions adopted in 2021 at 0.8% of GDP for the current year.

Impact of sanctions adopted in 2021



Source: GET calculations

After the peak in 2022, we expect a gradual reorientation of Belarusian trade, which would reduce the impact of sanctions in our model to 0.2% of GDP in 2023. But again, it should be stressed that current effects of the crisis are not taken into account inside our model.

Outlook: extremely uncertain further development

In addition to the economic impact of the Western sanctions on Belarus discussed above, the country is also directly affected by the military escalation in Ukraine. Belarus is closely intertwined economically and financially with Russia; Ukraine is also an important trading partner. As the following table shows, in total over 50% of goods exports go to these two countries. In this sense, the military escalation darkens the outlook in several ways: new sanctions against Belarus have been announced; spillover effects of the already adopted, massive sanctions on Russia and a collapse of existing trade relations with Ukraine will dominate economic development.

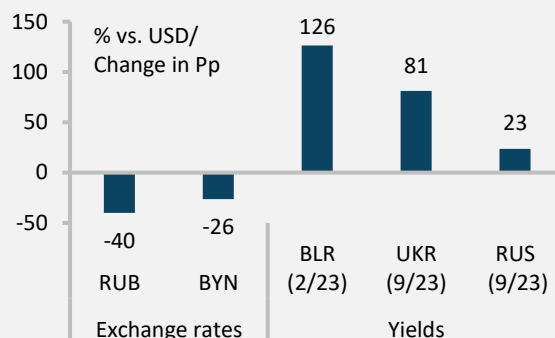
Exposure vis-à-vis Russia and Ukraine

	Russia		Ukraine	
	USD m	% share of total	USD m	% share of total
Exports of goods*	14,816	41.0	4,782	13.2
Exports of services	2,799	27.3	209	2.0
Remittances**	163	40.4	2	0.5
FDI stock	4,226	29.9	66	0.5

Sources: Belstat, NBRB; 2021 data; *11M2021; **9M2021; ***01.01.2021.

The strongly increased uncertainty of the economic outlook is well reflected in the financial markets. The chart below shows the development of exchange rates and Eurobond yields in the region, even though they are currently subject to massive fluctuations.

Development of exchange rates and yields



Sources: respective central banks, GET calculations; Period: 01.11.21 to 28.02.22 (yields: 25.02.22); Note: Ukraine's foreign exchange market is currently closed

It is clear that the financial markets are much more critical of Belarus' financial situation than they were before the conflict, although further developments are currently difficult to predict.

Authors

Dmitry Chervyakov, chervyakov@berlin-economics.com

Robert Kirchner, kirchner@berlin-economics.com

[This newsletter is partly based on the 15th issue of our Economic Monitor Belarus.](#)

Editors

Robert Kirchner, Dmitry Chervyakov

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