

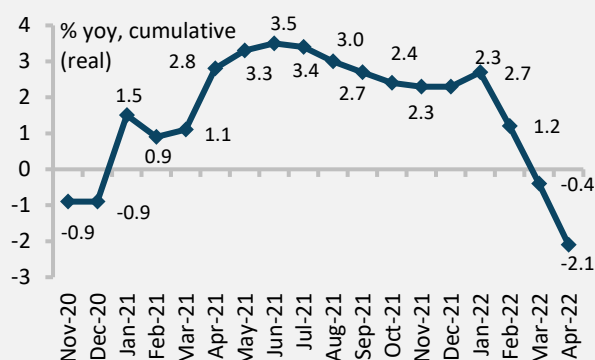
Current economic outlook in the context of sanctions

Last year, Belarus' economy grew by 2.3% in real terms – despite the various sanctions imposed by the West. This development was not surprising, as the effect of the sanctions adopted in 2021 was rather designed to materialize in the medium-term. After the Russian invasion of Ukraine, however, the overall picture has worsened: new sanctions have been added, the full impact of which is now becoming visible more clearly and, above all, faster. The country is already in a recession, which will deepen as the year progresses. In its forecast of the effects of sanctions, the German Economic Team expects GDP to fall by 4.1% this year. Particularly net exports and investment will contribute to this negative result. In the coming year, the economy will expand by 0.6%, which should more adequately be described as stagnation. The high degree of uncertainty surrounding the forecasts must be emphasized. In the medium-term, it is difficult to identify growth drivers for the country given the sanctions environment.

Economy slips into recession

Real GDP growth was 2.3% last year, following a decline of 0.9% in the COVID-year 2020. This slightly positive figure surprised some observers, who had expected a worse figure due to the economic and financial sanctions imposed by the West on Belarus in 2021.

Real GDP growth



Source: Belstat

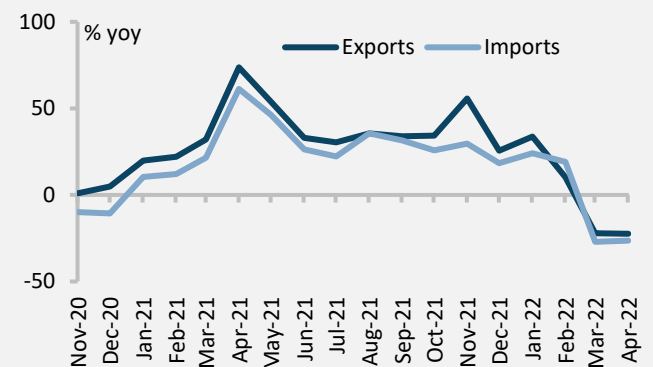
It must be said that the set-up of the individual sanctions packages was chosen in such a way that a medium-term effect was intended, i.e. short-term effects were not the focus.

However, with the start of the Russian invasion of Ukraine and the resulting further sanctions packages against Russia and Belarus, the picture changed very quickly. In the first four months of the year, the economy is clearly in recession, with a GDP decline of 2.1%.

Most sectors of the economy are currently shrinking; only the IT sector continues to be an exception here with a growth rate of +9.1%.

The development of foreign trade in goods very clearly reflects this negative trend. While there was still strong growth in exports and imports in the previous year, this trend has now reversed. Both categories contracted at rates of around 25% year-on-year in March and April 2022, i.e. after the start of the war. Sanctioned goods, as well as logistics and financing problems for non-sanctioned goods, are to be mentioned as reasons for this.

Development of foreign trade



Source: Belstat; Note: trade in goods

Sanctions and their impact

The war in Ukraine and the sanctions imposed on Belarus are weighing heavily on the economy. While initial effects are already evident as noted above, further developments remain very uncertain. Based on the available information and a number of assumptions, the German Economic Team analysed the impact of the sanctions using a macroeconomic model.

Model-based analysis

A structural model was used to estimate the effect of sanctions on GDP and its components. The basic model was adapted to current conditions by taking into account several shocks that will affect economic growth in 2022/2023. A clean separation of the shocks is often methodologically impossible, as their impact channels are closely interlinked. Nevertheless, a total of three important shocks were identified:

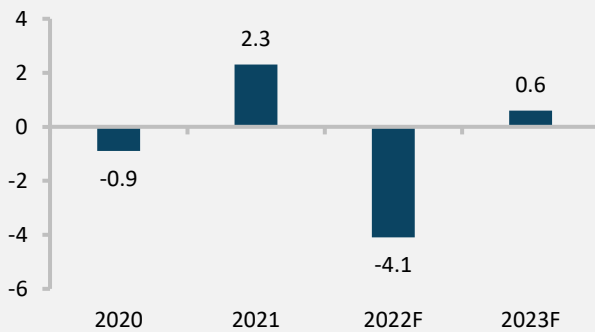
- 1) Restrictions on **international trade** in a large number of sectors due to sanctions and the war in Ukraine;
- 2) Significant complication of **international refinancing or issuance of new public debt** and overall weaker position of Russia (as lender of last resort);

3) **Financial sanctions**, accompanied by a depreciation of the Belarusian rouble and an overall significant deterioration of the macroeconomic financing environment.

Impact on GDP

The shocks listed above affect Belarus' GDP through a number of different channels. In this context, the structural model allows us to summarize the overall impact of the shocks in a forecast of real GDP growth.

Yearly development of real GDP



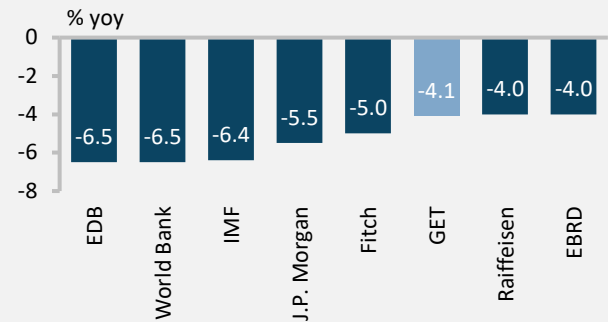
Source: Belstat, GET forecast of Apr-22

For 2022, we forecast an overall GDP decline of 4.1%. Unsurprisingly, a significant reduction in net exports and investment will be the main contributors to the decline. Public consumption will also make a negative contribution to growth, while private consumption will decline slightly compared with 2021 but still remain positive.

We expect the economy to expand slightly by 0.6% in the coming year, but this should be more adequately described as stagnation. Net exports will continue to have a negative contribution to growth, while consumption and investment will stagnate. It is likely that investment will reach its low point already in 2022, such that there will be no further decline.

Compared with other institutes, the forecast of the German Economic Team is more on the less pessimistic side of the forecast range of -6.5% to -4.0%. The high level of uncertainty – particularly with regard to the duration of the war in Ukraine – makes a reliable assessment of the future economic situation difficult.

GDP forecast comparison for 2022



Source: respective institutions; Various forecast dates: IMF (Apr-22), World Bank (Apr-22), J.P. Morgan (Mar-22), Fitch (Apr-22), GET (Apr-22), Raiffeisen (May-22), EBRD (May-22), EDB (May-22)

Outlook

The Belarusian economy is currently only at the beginning of a recession, which will continue and deepen as the year progresses. International trade in particular has been hit hard by sanctions and logistical problems. Even if a reorientation of Belarusian trade flows for many important goods such as potash fertilizer and wood seems quite possible, transport costs will increase many times over and thus burden the predominantly state-owned enterprises. It is questionable how much financing can be expected from Russia, whose economy is currently also undergoing a restructuring phase, and which is also looking for alternative markets. Above all, the long-standing subsidy model of cheap crude oil from Russia and the export of oil products to the EU and Ukraine no longer seems realistic in the future.

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This newsletter is partly based on the Policy Study „[The impact of the war in Ukraine and the sanctions on Belarus' GDP](#)“.

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German Economic Team

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Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*