

NEWSLETTER

BELARUS

Dr Justina Budginaite-Froehly, Robert Kirchner

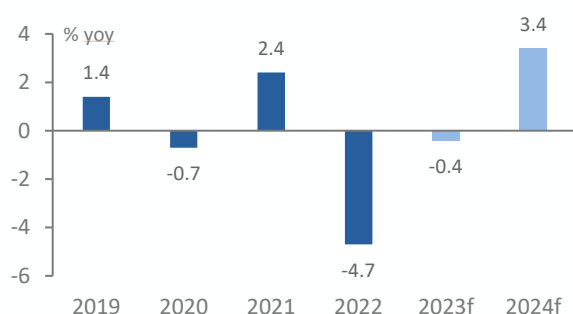
Gradual stabilisation of the economic situation

There are first signs of economic stabilisation after the major slump of Belarusian GDP by 4.7% last year. Nevertheless, the economy will shrink by a further 0.4% this year with growth of 3.4% expected next year. One reason for the current stabilisation of the economic situation in Belarus is the reorientation of its foreign trade, which is expanding again after a slump in 2022. From a sectoral perspective, those economic sectors which are directly affected by the sanctions, such as transport and logistics, are suffering the most. However, the IT sector is also deteriorating significantly because of migration and relocation of IT companies from the country. High inflation, which could only be brought under control in the short term by administrative measures, has led to a general decline in real wages and shrinking living standards. Despite a lack of accessible data, the public budget clearly reflects the continuing economic difficulties.

Economic stabilisation

In 2022, the Belarusian economy shrank by 4.7% year-on-year. Belarus thus experienced the worst slump in economic output since the transformation crisis in the 1990s.

Real GDP growth



Source: Belstat, 2023f und 2024f: GET forecast

The sharp decline in economic performance was a direct consequence of Russia's war of aggression against Ukraine and the Western sanctions that were imposed on Belarus in connection with its support for the war. The sanctions have caused a loss of sales markets in the EU, restricted Belarus' access to the global financial system, caused massive logistical problems, and encouraged an exodus of highly skilled professionals from the country. Due to its close ties with Russia, the Belarusian economy was also affected by the negative economic developments in this country. In addition, with the outbreak of the war, Belarus lost the Ukrainian market,

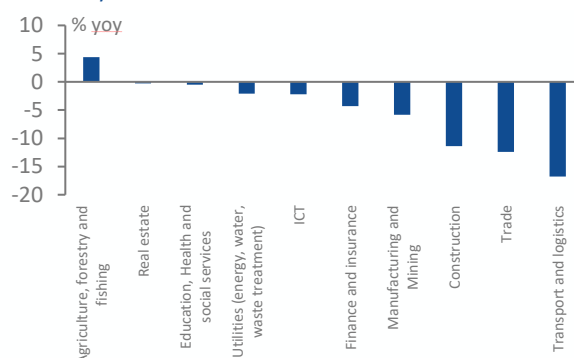
which had played an important role in Belarusian exports before.

Although the unstable situation in the region and the sanctions have triggered serious problems for Belarus, the Belarusian economy is gradually adjusting to the new reality. In the first four months of this year, economic output decline decelerated to 0.6% year-on-year. The current GET forecast foresees a slight decline of 0.4% for the whole year 2023 and expects growth of 3.4% in 2024. The main drivers of growth in the coming year will be positive net exports - due to an advancing reorientation of exports - and recovering domestic consumer demand.

Sectoral dynamics

Despite the initial signs of general economic stabilisation, some sectors of the economy are hit extremely hard by the consequences of the war and sanctions. The trade and the transport sector contracted by 12.4% and 16.8% respectively in 2022 compared with the previous year. Even the former growth engine, the ICT sector declined for the first time by 2.2% compared to the previous year, which was mainly due to the negative consequences of the ongoing outflow of IT professionals and relocation of IT companies abroad.

Sectoral dynamics



Source: Belstat, data for 2022

Agriculture was the only sector to record growth in 2022 (4.4% yoy). This was due to good harvest, state support and the current sanctions regime, which does not affect agriculture.

Declining living standards

The Belarusian population is also exposed to the negative consequences of high inflation. In July 2022, inflation peaked at 18.1% year-on-year. However, it was slightly contained in the second half of the last year with the help of governmental price controls introduced in October and the stabilisation of the exchange rate. As a result of these measures, inflation was at 12.8% year-on-year at the end of 2022.

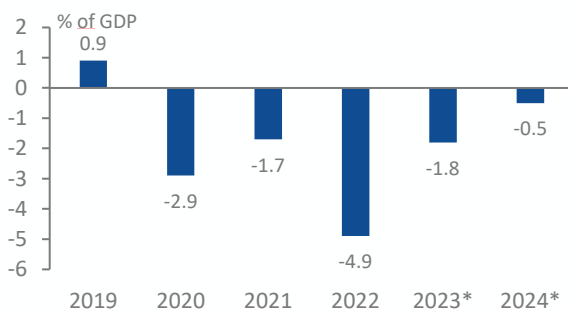
Although inflation rates have continued to decline this year (Apr-23: 4.7% yoy), which was also due to base effects, considerable risks remain in terms of further developments in this area, especially in the case of easing governmental price controls.

Real monthly wages fell by -1.8% in 2022. The negative trend also continues this year: in the first quarter of 2023, real wages fell by -1.7% year-on-year. Real wages in the ICT sector fell sharply by -10.3% year-on-year, which was not only due to high inflation but also due to the aforementioned crisis in the IT sector.

Public finances under pressure

Belarus restricts access to fiscal data since mid-2022, which is a clear indication of significant problems with state finances. Despite the lack of transparency in the data, the negative consequences of the sanctions, which are mainly directed against the state-dominated sectors, can be clearly seen. Government revenues declined significantly, and since government spending could not be adjusted quickly enough and to the same extent, the budget deficit grew rapidly (4.9% of GDP in 2022 after 1.7% of GDP in 2021).

Budget balance



Source: IMF Fiscal Monitor, April 2023, *forecast

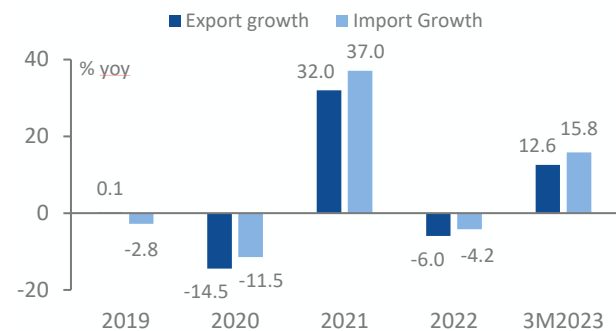
Despite the high budget deficit, public debt in 2022 was slightly lower than a year before amounting to 39.8% of GDP (2021: 41.2% of GDP). After Belarus failed to redeem its international Eurobond obligations in accordance with the bond contract, international rating agencies affirmed its default. The unfavourable rating and the sanctions cut Belarus off from international financial markets. As a result, Belarus' dependence on Russia (and potentially China) as its remaining lender grew massively.

Reorientation of foreign trade

Trade data are also accessible only to a limited extent, which indicates considerable trade reorientation manoeuvres of Belarus. Due to the sanctions, former Belarusian exports destined for the EU have now been diverted to CIS countries (mainly Russia) and other markets (e.g. China).

Nevertheless, both imports to Belarus (-4.2% yoy) and Belarusian exports (-6.0% yoy) shrank in 2022. Due to the sanctions (import ban by the EU, difficulties with logistics and payment processing), exports to countries outside the CIS even dropped by -8.2% compared to the previous year. Exports to CIS countries (mainly Russia), on the other hand, grew by 9.1% in 2022 compared to the previous year. As a result, the dependence of Belarus on Russia increased massively in this area as well.

External trade



Source: Belstat

The latest developments in external trade show some positive dynamics in the first quarter of this year. Both exports and imports grew by 12.6% and 15.8% year-on-year respectively, indicating the successful establishment of new trade routes via the CIS countries.

Outlook

After a severe recession last year, the economy is slowly stabilising, even if it will contract slightly again this year. Even though growth is forecasted for the coming year, there is no room for complacency. The massive problems of the former growth engine, the IT sector, reflect the overall poor economic situation of the private sector. In addition, the increasing economic intertwining with Russia and the disconnection from Western technologies and investments provide no optimism for the development of the economic situation in Belarus in the medium and long term.

This newsletter is based on the [17th issue of the Economic Monitor Belarus](#).

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.

Editors

Robert Kirchner, Dr Justina Budginaite-Froehly

[Subscribe / unsubscribe newsletter](#)

German Economic Team

www.german-economic-team.com

 **Berlin
Economics**

Implemented by
BE Berlin Economics GmbH
Schillerstraße 59 | 10627 Berlin
+49 30 / 20 61 34 64-0

info@berlin-economics.com | [Imprint](#)