Overview

- Worst recession since the 1990s in 2022 (real GDP: -4.7%) as a direct consequence of RUS war against UKR and sanctions; 4M2023: further decline of -0.6% yoy
- Forecast: further decline in economic output of 0.4% in 2023; growth of 3.4% expected in 2024
- From a sectoral perspective, only agriculture grows (2022: +4.4%); the transport and logistics sector suffers most from consequences of the war and sanctions (-16.8%); the ICT sector shrinks for the first time (-2.2%)
- High inflation could only be contained by price controls and exchange rate stabilisation (Dec-22: 12.8%; Apr-23: 4.7%) with significant risks remaining
- Despite a lack of data, considerable problems with public finances are apparent: declining revenues, reduced access to int. credits; default confirmed by int. rating agencies
- Trade shrinks (2022: exports -6.0%, imports -4.2%); redirection of former BLR exports to the EU to CIS countries (mainly RUS) and China; therefore - increasing dependencies

Special issues

- **Economic cooperation with China.** The highly asymmetrical bilateral economic relations are subject to additional pressures from the negative effects of the war against UKR
- **Developments in the IT industry.** The former economic engine has started to sputter as it suffers from the outflow of IT professionals and relocation of the most successful IT companies from BLR
- **Relocation from BLR.** The relocation of companies, which has been ongoing since Aug-20, has intensified massively since the outbreak of RUS war against UKR
# Basic indicators

<table>
<thead>
<tr>
<th></th>
<th>Belarus</th>
<th>Russia</th>
<th>Ukraine</th>
<th>Moldova</th>
<th>Georgia</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, USD bn</td>
<td>73.1</td>
<td>2,215.3</td>
<td>151.5</td>
<td>14.4</td>
<td>24.6</td>
</tr>
<tr>
<td>GDP/capita, USD</td>
<td>7,860</td>
<td>15,444</td>
<td>4,349</td>
<td>5,671</td>
<td>6,671</td>
</tr>
<tr>
<td>Population, m</td>
<td>9.3</td>
<td>143.4</td>
<td>34.8</td>
<td>2.5</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook, April 2023. Data for 2022

## Trade structure

### Exports

- **CIS 68%**
- **EU 9%**
- **Others 23%**

### Imports

- **CIS 62%**
- **EU 18%**
- **Others 20%**

### Sources

- Belstat
- Comtrade

*Source: Comtrade, trade in goods (without services). Belarus does not publish data on the composition of trade. The shares have been calculated according to the reports of 75 countries, which represent 34% of Belarus’ exports and 50% of its imports, this group of countries does not include Russia, which also does not publish data on the composition of trade.*
Economic growth

» 2022: -4.7% yoy; worst slump in economic output since the crisis in the 1990s:
  - Direct consequence of the RUS war against UKR and the Western sanctions
  - Loss of export markets, limited access to the global financial system, problems with logistics, emigration and relocation of companies
  - Closely linked to negative economic policy developments in RUS

» 4M2023: further decline in economic output by -0.6% yoy

» Wide range in GDP forecasts for 2023 and 2024:
  - 2023: further (smaller) decline in economic output or stabilisation of the economy (between -2.3% and 0.7%)
  - 2024: growth between 1.0% and 3.4%
  - GET: decline of -0.4% in 2023; growth of 3.4% in 2024

➢ Sanctions work but the BLR economy adjusts gradually
Sectoral perspective

Composition of GDP

- Manufacturing (27.8%), trade (10.7%) and agriculture (8.6%) remain the most important sectors
- Share of ICT sector shrinks from 8.7% in 2021 to 7.5% in 2022

Sectoral dynamics

- Agriculture was the only sector to record growth (4.4% yoy)
- The transport and logistics sector suffered most from the consequences of the war and sanctions and contracted by -16.8% yoy
- Trade also recorded a sharp decline (-12.4% yoy)
- Former economic engine ICT sector contracted for the first time by -2.2% yoy

- Effects of sanctions are clearly visible from the sectoral perspective: trade and the transport sector are directly affected by sanctions thus shrinking massively
- Agriculture is exempt from sanctions and continues to grow

Source: Belstat, Data for 2022
Due to the price controls introduced in Oct-22 and the stabilisation of the exchange rate, inflation was slightly contained (Dec-22: 12.8% yoy) as compared to the peak in Jul-22 (18.1% yoy)

2023: IMF forecasts inflation of 9.0%; this would be above the inflation target of 7-8%

However, risks remain if price controls were to be relaxed

2022: a sharp decline in real wages (-1.8%) due to high inflation

Q1-2023: persisting negative trend (-1.7%)

High inflation and a sharp decline in real wages have a direct negative impact on the BLR population as living standards decline
Massive depreciation of BYN against USD at the end of Feb-22, followed by rapid stabilisation (analogous to the Russian ruble)

Since Nov-22/Dec-22 again clear depreciation trend, lasting until Apr-23

After a sharp decline in international reserves since Feb-22, they have been gradually rising again since Oct-22; at USD 7.9 bn in Apr-23 roughly at prewar levels

Default "saves" int. reserves

High current account surplus in 2022 (4% of GDP) supports currency and reserves

In addition to price effects, the surplus also indicates a successful redirection of former BLR exports to the EU to CIS countries (mainly RUS) and to CHN

Relatively stable external position signals adjustment of the BLR economy to the current sanctions regime
Public finances

Budget balance

» 2022: deficit of -4.9% of GDP
  - Decline in revenues due to sanctions, which are predominantly targeted at state-dominated sectors
  - Government spending was not adjusted to the same extent
  - RUS (and possibly CHN) remains the only potential lender, as BLR has no access to international credits due to sanctions

Public debt

» 2022: 39.8% of GDP; further increase to 41.4% of GDP expected in 2023
  » International rating agencies affirmed BLR default rating after it failed to repay its Eurobond payments in USD
  ➢ Limited access to fiscal data since mid-2022 is an indication of significant problems with public finances
Access to trade data is also limited, indicating significant trade reorientation manoeuvres of BLR.

**Exports**

- Significant decline in exports in 2022 (-6.0%); exports to countries outside the CIS slumped even more (-8.2% yoy)
  - Directly affected by the sanctions
  - Difficulties with logistics and payment processing
- In contrast, exports to CIS countries (mainly RUS) grew by 9.1% in 2022

**Imports**

- Imports slumped by -4.2% in 2022
- Reasons: sanctions, falling domestic demand, slowing imports of crude oil from RUS; import substitution measures
  - Increasing dependence of BLR on the RUS market
German exports

» After a sharp drop in DEU exports during the first months of the war, they stabilised in the summer of 2022

» Due to price effects, DEU exports in 2022 remained at the pre-war level (EUR 1.5 bn)

» In total, goods for EUR 1.5 bn were exported to BLR

» Vehicles accounted for almost a half (45%) of total exports, followed by chemical products (16%) and machinery (11%)

German imports

» Imports from BLR have shrunk by half in 2022 (EUR 0.4 billion from EUR 0.8 billion in 2021)

➢ DEU imports from BLR are stronger affected by the consequences of the sanctions than exports

➢ Continued positive trade balance from the DEU perspective
Economic cooperation with China (1/2)

Infrastructure and industrial cooperation

» BLR participates in the Chinese Belt and Road Initiative (BRI) and receives funding for the modernisation of railroad infrastructure and the development of new industrial projects

» 2015: the BLR-CHN Great Stone Industrial Park near Minsk has been opened (planned production of high-tech products for the EAEU and EU)

Transit

» Being a part of the BRI, BLR plays an important role in the diversification of the transit routes for goods between CHN and the EU

» Since 2012, CHN has been actively subsidising the expansion of the transportation of goods to the EU by rail

» The share of transportation of goods by rail remains small as compared to air and sea transportation

➢ Due to the RUS war against UKR and the sanctions, the transit route via BLR risks losing relevance
Economic cooperation with China (2/2)

**Trade**
- CHN share in the foreign trade structure of BLR remains low (3.2% in 2010; 5.0% in 2021)
- Imports from CHN dominate the bilateral trade relations (4.7% share in 2010; 8.3% in 2021)
- In contrast, BLR exports to CHN stagnate (1.52% in 2010; 1.68% in 2021) causing a large trade deficit

**Investment and loans**
- 2013-2021 annual gross FDI inflows from CHN to BLR increased by 19.7% on average (special case in 2012: car manufacturer Geely opened a production plant in Belarus)
- However, (relatively non-transparent) loans under "development finance" are significantly higher than FDI (at least USD 25.7 bn between 2000-2019)

➢ BLR-CHN trade and financial relations are highly asymmetric

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**Trade between Belarus and China, 2011-2022, USD m**

**FDI inflows from China 2011-2021: USD m and % yoy**

**Source:** GET based on Comtrade data, *data for Q1

Source: GET based on data of the National Bank of Belarus
IT industry: the economic engine is sputtering (1/2)

Sectoral classification

» IT industry includes software development, computer programming, consulting, data processing, hosting and web portals

» It accounts for more than 3/4 of the information and communications technology (ICT) sector and the information and communications (IC) sector and contributes significantly to their overall economic output

Strong dynamics until the end of 2021

» 2016-2021: annual growth of over 14%

» 2016: 3.0% of GDP; 2021: already 5.8% of GDP and 1/3 of total GDP growth

» Highly export-oriented sector:
  - 2021: exports of ICT goods and services worth USD 3.8 bn (7.5% of total exports and 5.5% of GDP)
  - over 90% of ICT exports goes to the West (mainly to the USA and the EU)

➢ Growth of the private IT industry contributed significantly to the development of the overall BLR economy and ensured a constant inflow of foreign currency
IT industry: current developments (2/2)

Current downward trend in the ICT sector

» After strong growth of 9.2% yoy in 2021, the ICT sector contracted for the first time in 2022 by 2.2% yoy

» 3M2023: ICT sector shrinks at an accelerated rate of a further 16.2%

Outflow of employees and relocation of IT companies

» Mar-Dec 2022: 17.2 thousand professionals left the IT industry (almost 20% of the total IT workforce)

» Successful companies such as Wargaming, PandaDoc, Flo, Wannaby, OneSoil, Work-Fusion, EIS Group, Vochi, Playrix and others have closed their companies in BLR

» IT professionals and companies from BLR move mainly to POL, LTU, GEO and UZB

➢ The outflow of IT professionals and the ongoing relocation of IT companies from BLR is one of the central factors of the current slump in the ICT sector

Source: Belstat

Net inflow/outflow of employees in the IT industry (persons)*
Relocation from Belarus

Migration from BLR to the destination countries after August 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>75,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>47,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAEU countries</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other EU countries</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GET based on public information

Current developments

» Outflow of IT professionals is only a part of a larger outflow process from BLR

» Outflow since 2020 was massively intensified by RUS war against UKR

» Since 2020, over 183,000 individual entrepreneurs have left BLR and over 2,100 companies have been relocated abroad

» The main destination countries in the EU are POL and LTU

» GEO sees an inflow of mainly self-employed entrepreneurs (approx. 2,400 so far)

Situation in Poland

» Increase in companies with Belarusian capital

» Association of Belarusian Business Abroad (ABBA) was founded
  - Role of a mediator in the new business environment
  - Access to financing
  - Expertise and capacity building

» Polish Business Harbour (PBH)

➢ Outflow of companies and entrepreneurs is a significant loss for the fragile BLR private sector; thus, state influence on the economy increases further
About the German Economic Team

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.

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