

# ECONOMIC MONITOR

## BELARUS

### 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

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

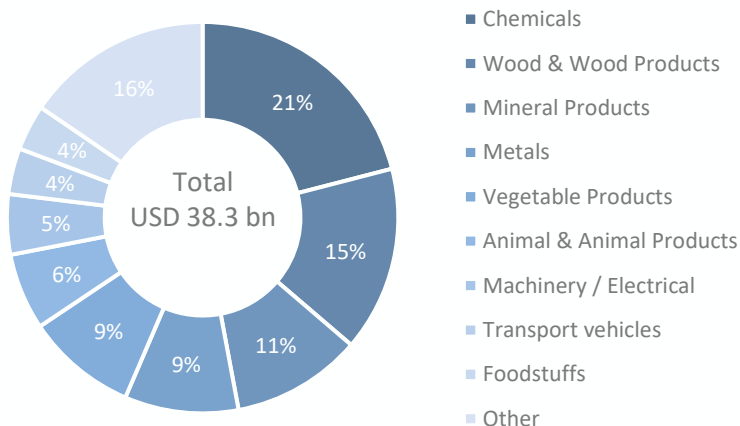
Source: IMF World Economic Outlook, April 2023. Data for 2022

## Trade structure

### Exports

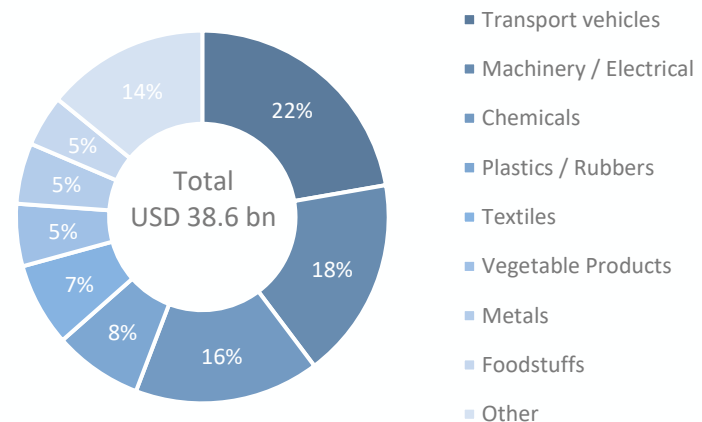
CIS 68% | EU 9% | Others 23%

Sources: Belstat, Comtrade



### Imports

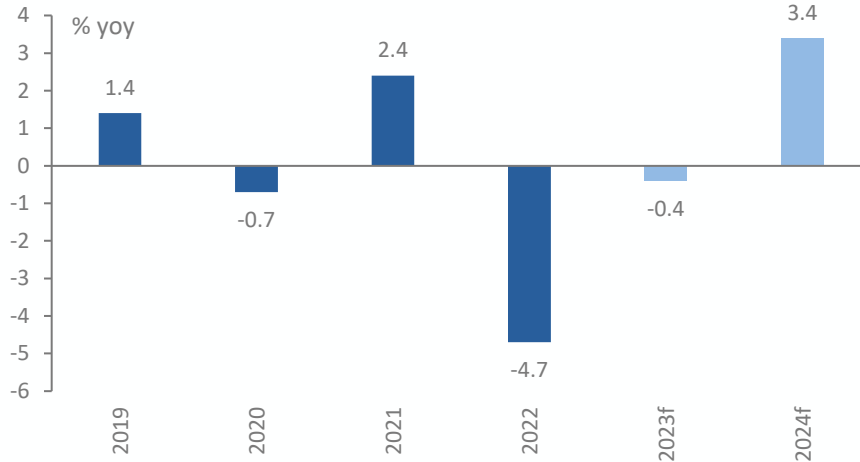
CIS 62% | EU 18% | Others 20%



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

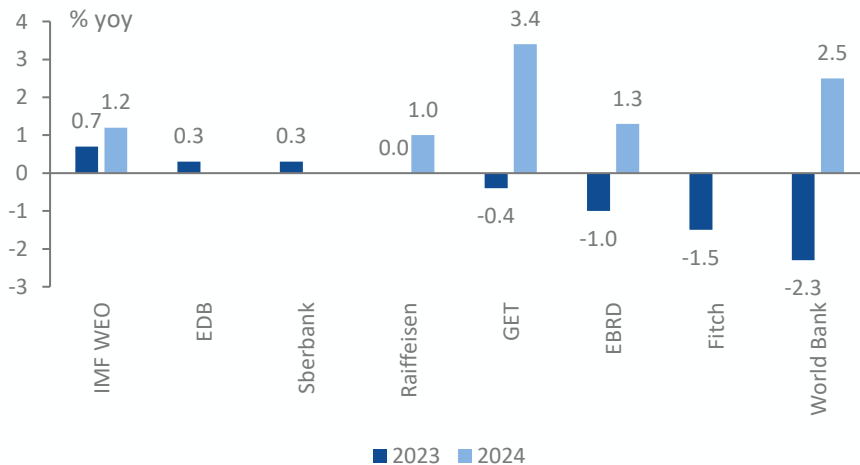
# Economic growth

Real GDP growth



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

Comparison of GDP forecasts

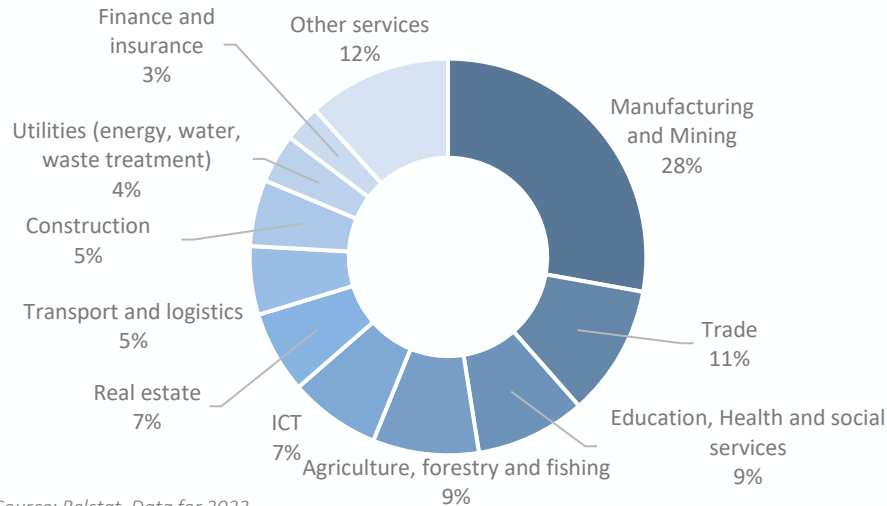


Source: respective institutions

- » 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

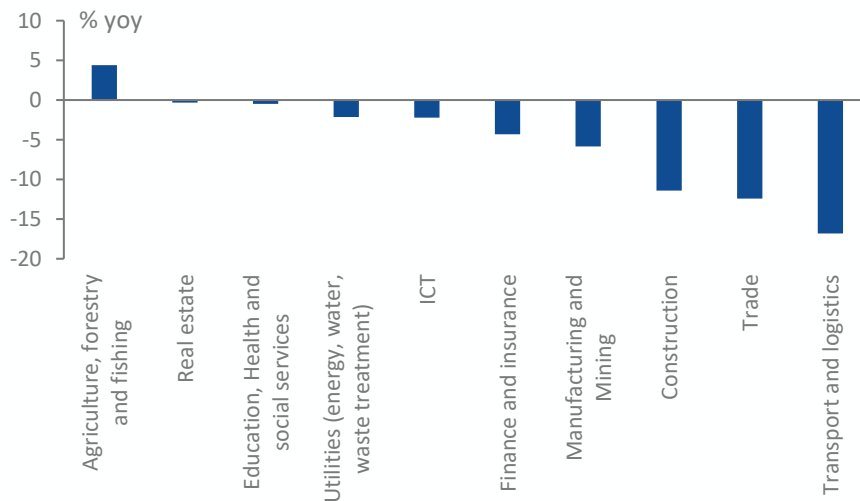
# Sectoral perspective

## Composition of GDP



Source: Belstat, Data for 2022

## Sectoral dynamics



Source: Belstat, Data for 2022

## Composition of GDP

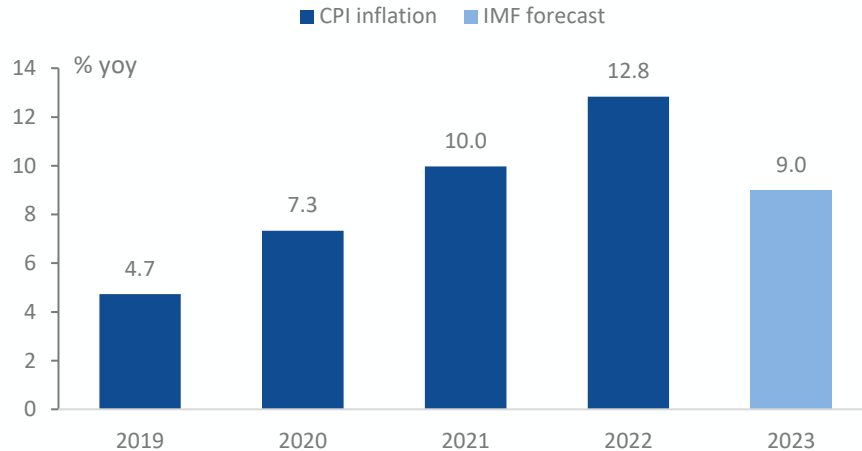
- » Manufacturing (27.8%), trade (10.7%) and agriculture (8.6%) remain the most important sectors
- » Share of ICT sector shrinks from 8.7% in 2021 to 7.5% in 2022

## 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

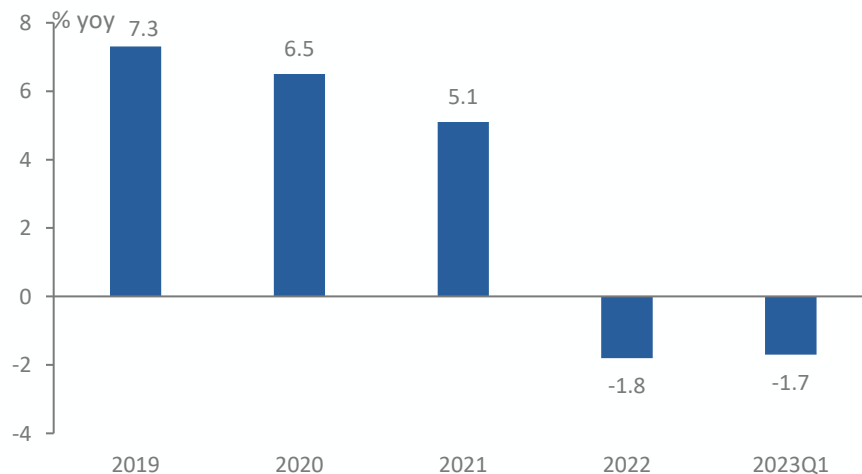
# Inflation and wages

## Inflation



Source: Belstat, IMF, Consumer prices at the end of year

## Real monthly wages



Source: Belstat, average monthly wages in BYN

## Inflation

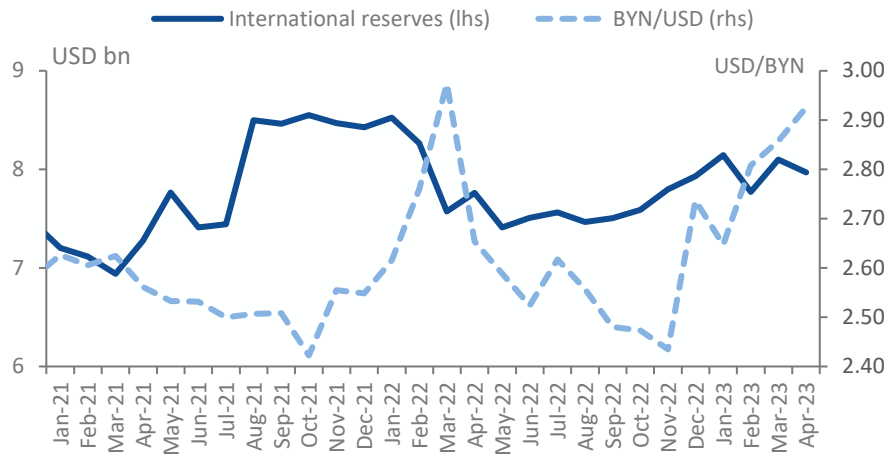
- » Due to the price controls introduced in Oct-22 and the stabilisation of the exchange rate, inflation was slightly contained (Dec-22: 12.8% yoy) as compared to the peak in Jul-22 (18.1% yoy)
- » 2023: IMF forecasts inflation of 9.0%; this would be above the inflation target of 7-8%
- » However, risks remain if price controls were to be relaxed

## Wages

- » 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

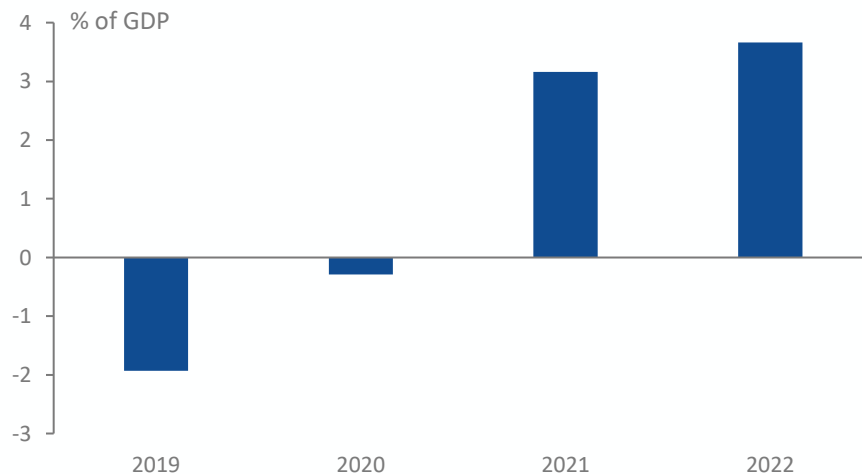
# Current account and exchange rate

## Exchange rate and international reserves



Source: NBRB, reserves eop

## Current account



Source: NBRB

## Exchange rate and international reserves

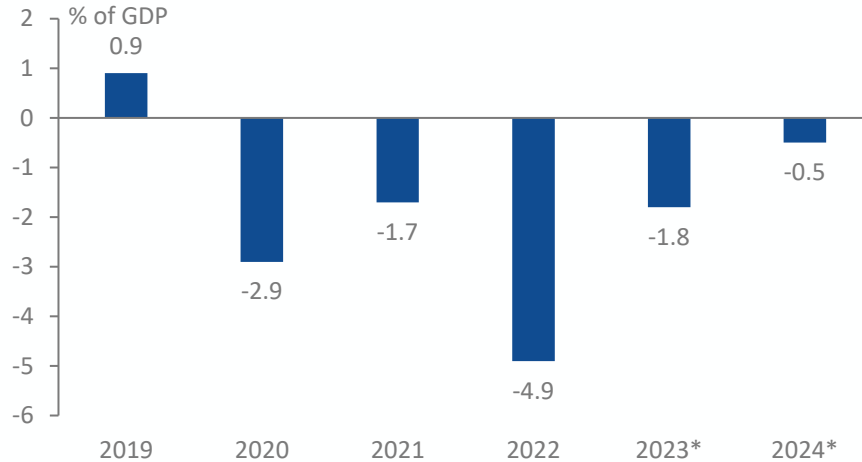
- » Massive depreciation of BYN against USD at the end of Feb-22, followed by rapid stabilisation (analogous to the Russian ruble)
- » Since Nov-22/Dec-22 again clear depreciation trend, lasting until Apr-23
- » After a sharp decline in international reserves since Feb-22, they have been gradually rising again since Oct-22; at USD 7.9 bn in Apr-23 roughly at prewar levels
- » Default "saves" int. reserves

## Current account

- » 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

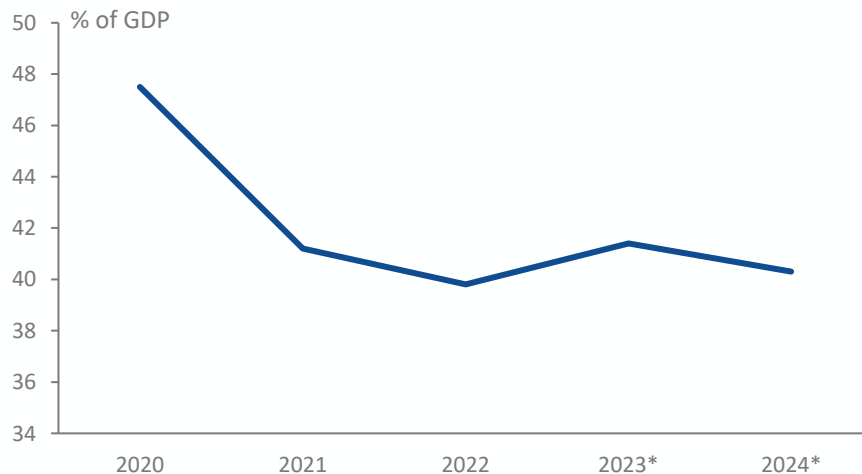


Source: IMF Fiscal Monitor, April 2023

## 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



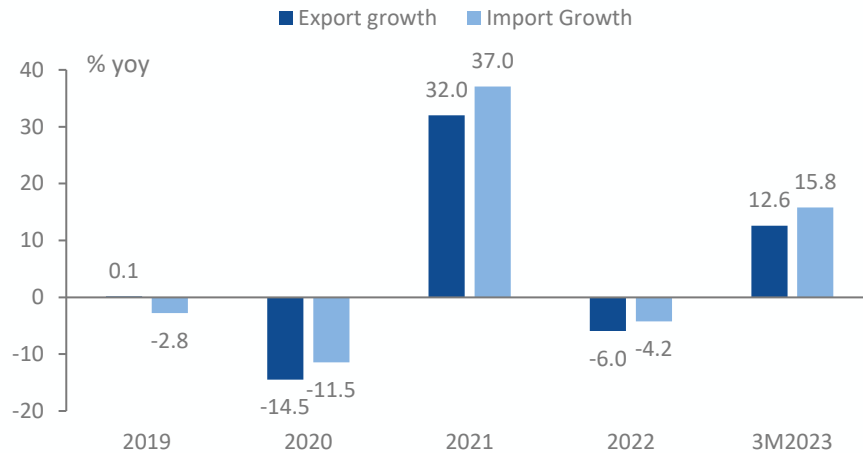
Source: IMF Fiscal Monitor, April 2023

## 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

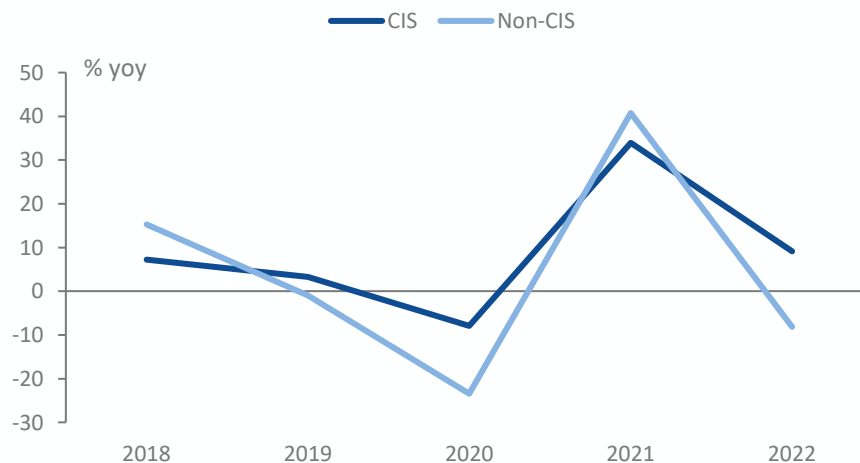
# External trade

## External trade



Source: Belstat

## Development of exports by geographic area



Source: Belstat

- » 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

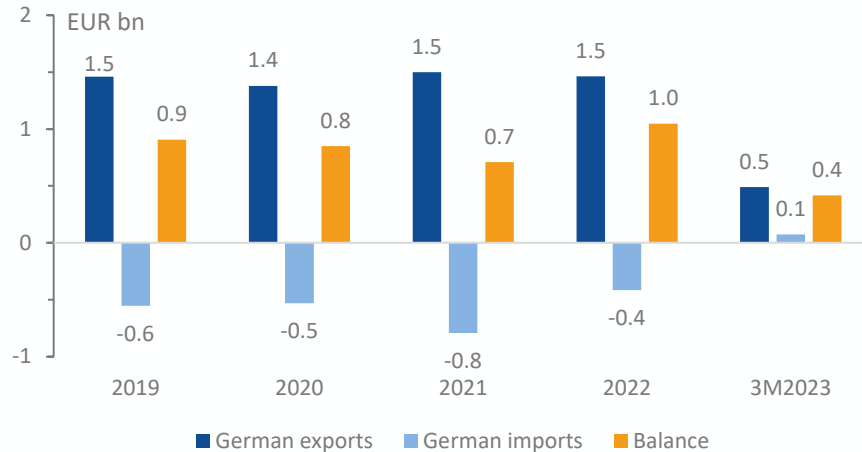
## Imports

- » 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



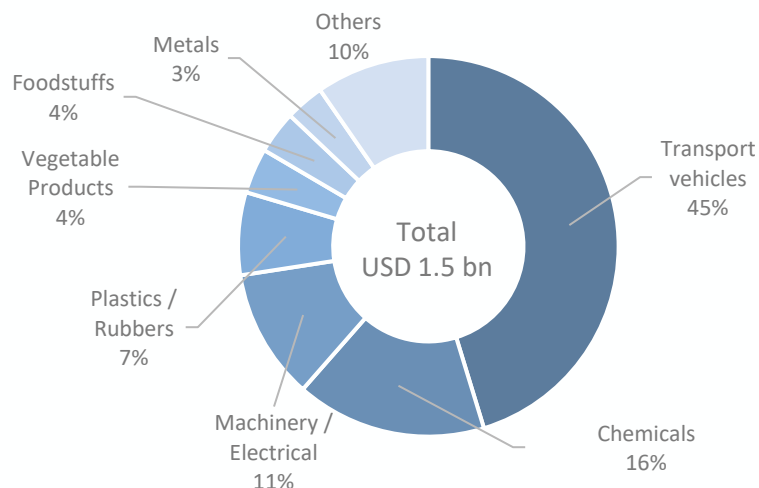
# Bilateral trade between Belarus and Germany

## German trade with Belarus



Source: Destatis

## German exports to Belarus



Source: Destatis

## German exports

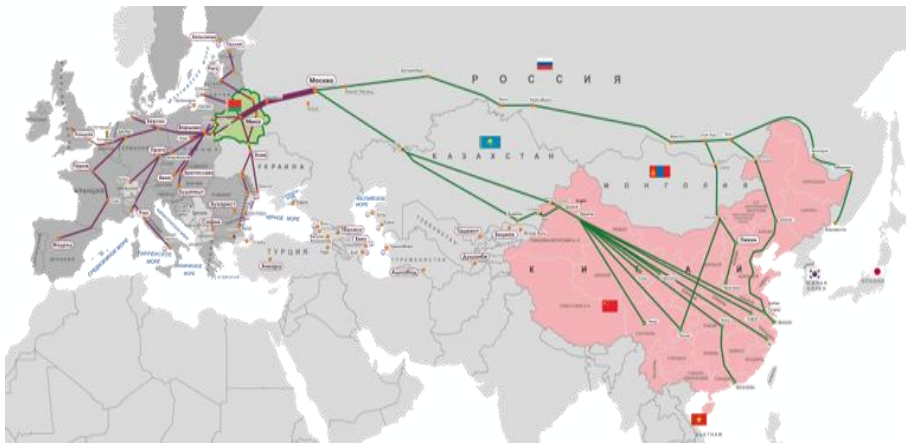
- » After a sharp drop in DEU exports during the first months of the war, they stabilised in the summer of 2022
- » Due to price effects, DEU exports in 2022 remained at the pre-war level (EUR 1.5 bn)
- » In total, goods for EUR 1.5 bn were exported to BLR
- » Vehicles accounted for almost a half (45%) 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

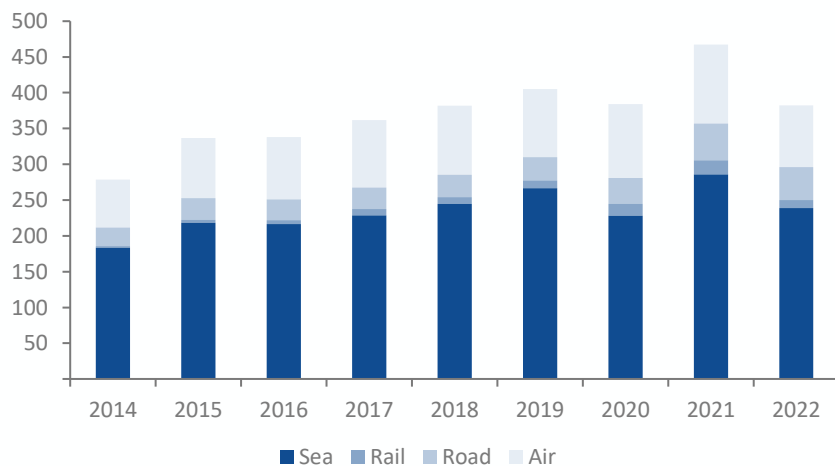
# Economic cooperation with China (1/2)

## Transport corridors between Belarus and China



Source: Belarusian Railways

## EU imports from China by transport mode, EUR bn



Source: GET based on Eurostat data

## Infrastructure and industrial cooperation

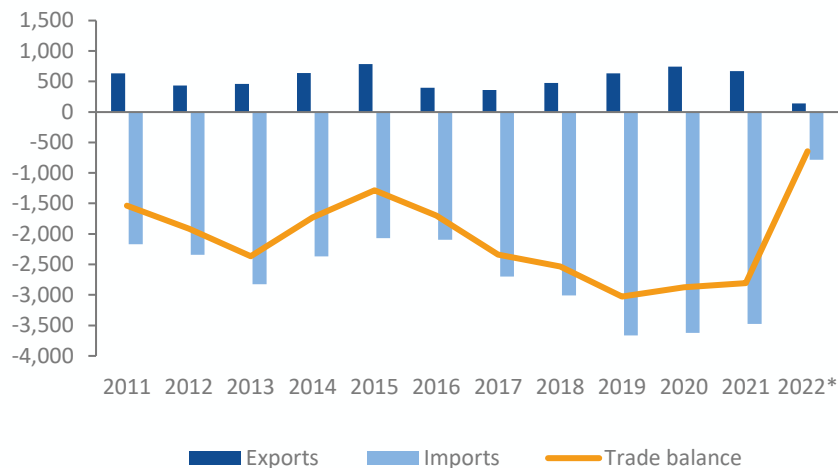
- » BLR participates in the Chinese Belt and Road Initiative (BRI) and receives funding for the modernisation of railroad infrastructure and the development of new industrial projects
- » 2015: the BLR-CHN Great Stone Industrial Park near Minsk has been opened (planned production of high-tech products 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

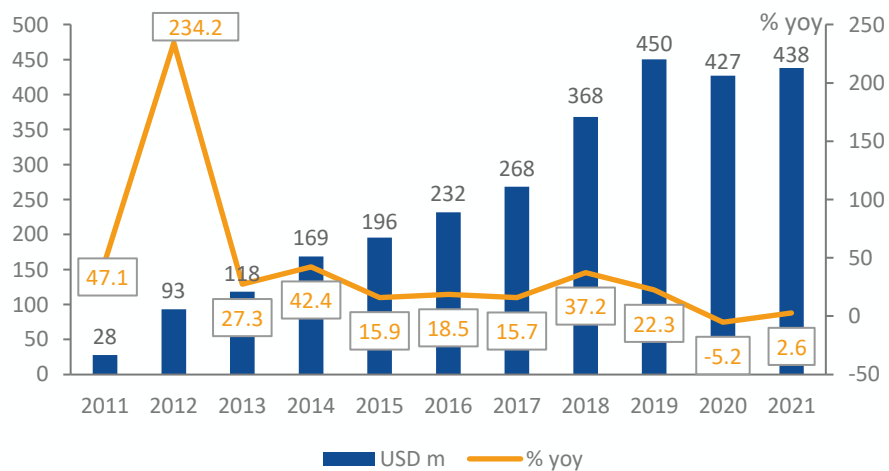
# Economic cooperation with China (2/2)

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



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

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



Source: GET based on data of the National Bank of Belarus

## Trade

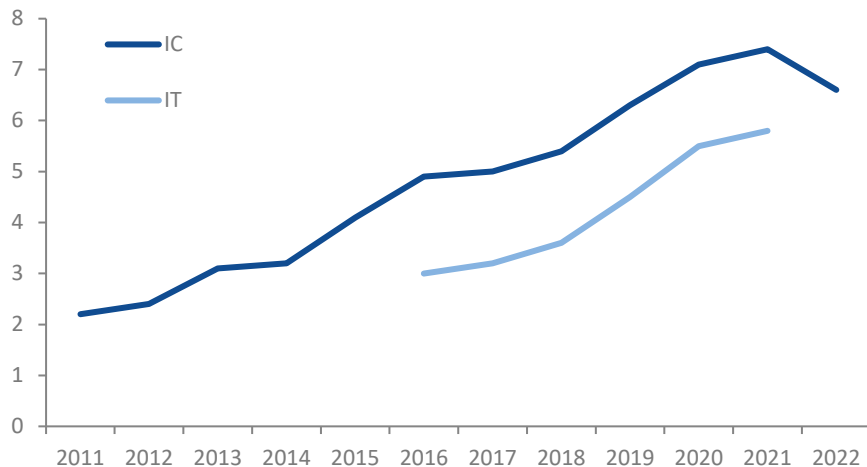
- » CHN share in the foreign trade structure of BLR remains low (3.2% in 2010; 5.0% in 2021)
- » Imports from CHN dominate the bilateral trade relations (4.7% share in 2010; 8.3% in 2021)
- » In contrast, BLR exports to CHN stagnate (1.52% in 2010; 1.68% in 2021) causing a large trade deficit

## 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

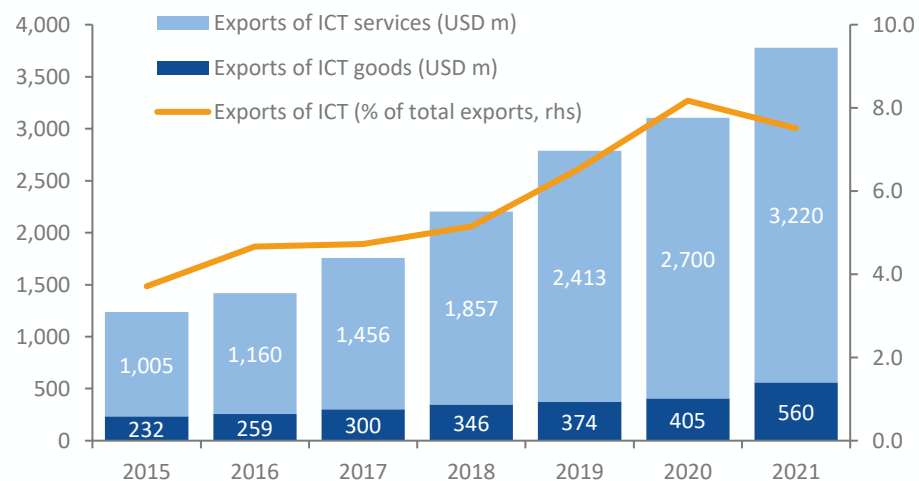
# IT industry: the economic engine is sputtering (1/2)

Development of the IC sector and IT industry (% of GDP)



Source: Belstat

ICT exports



Source: Belstat

## Sectoral classification

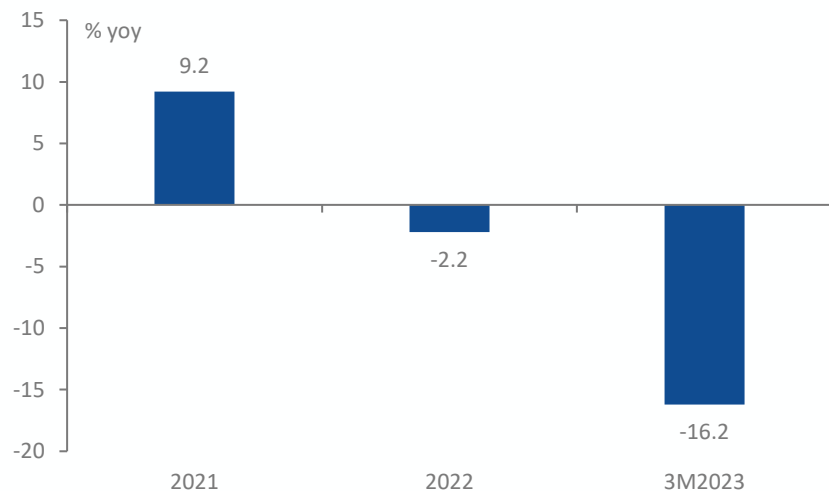
- » IT industry includes software development, computer programming, consulting, data processing, hosting and web portals
- » It accounts for more than 3/4 of the information and communications technology (ICT) sector and the information and communications (IC) sector and contributes significantly to 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)

## Decline in the ICT sector



Source: Belstat

## Net inflow/outflow of employees in the IT industry (persons)\*



Source: Belstat, \*For companies employing 16+ employees

## Current downward trend in the ICT sector

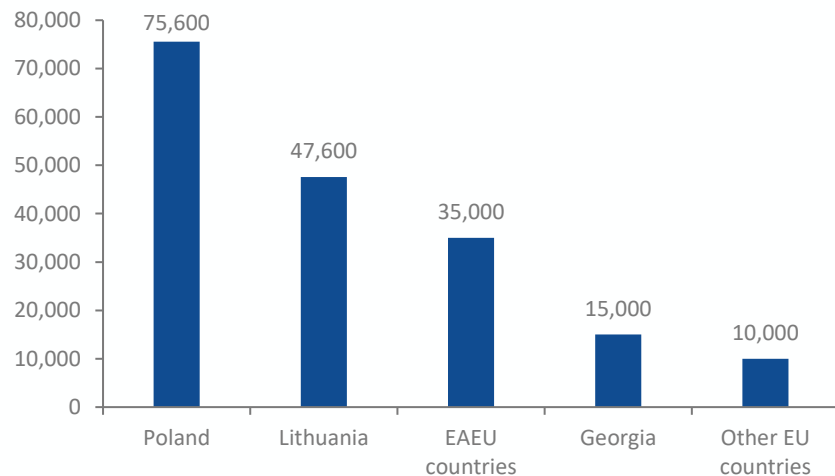
- » After strong growth of 9.2% yoy in 2021, the ICT sector contracted for the first time in 2022 by 2.2% yoy
- » 3M2023: ICT sector shrinks at an accelerated rate of a further 16.2%

## 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

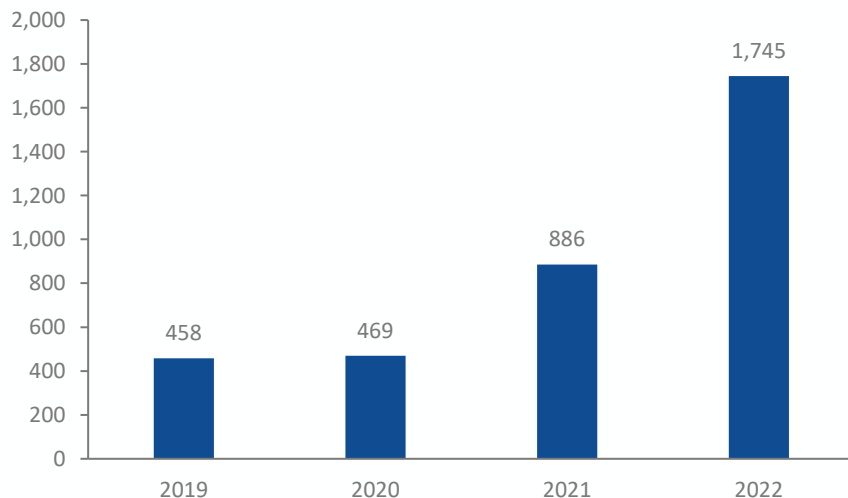
# Relocation from Belarus

## Migration from BLR to the destination countries after August 2020



Source: GET based on public information

## Companies with Belarusian capital operating in Poland



Source: Central Economic Information Center, Poland

## 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.*

## CONTACT

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