

ECONOMIC MONITOR

BELARUS

Overview

- » Economic growth by 4.5% yoy in 9M2024 mainly driven by private consumption and strong manufacturing growth. Collapse of ICT sector came to a halt and there are signals of moderate growth of the sector for 2024
- » Growth of around 4% expected for this year, but slowdown to around 2% for 2025 expected. However, high uncertainty, as strongly dependent on developments in Russia
- » Inflation, contained by price controls and exchange rate stabilisation, runs at around 6%
- » Positive fiscal balance due to high growth and subsidies from Russia, both highly dependent on policies in Russia
- » BLR trade almost exclusively re-routed to and via RUS; growing dependence on RUS logistical network

Special issues

- » **Dependence on Russia.** Political isolation leads to an increasing dependence on Russia in trade, energy and finance
- » **Banking sector.** Sanctions and higher interest rates accelerate trends towards de-dollarization
- » **Private sector development.** Relocation of dynamic sectors of the economy damage Belarusian economy, but may be an asset in the future

Basic indicators

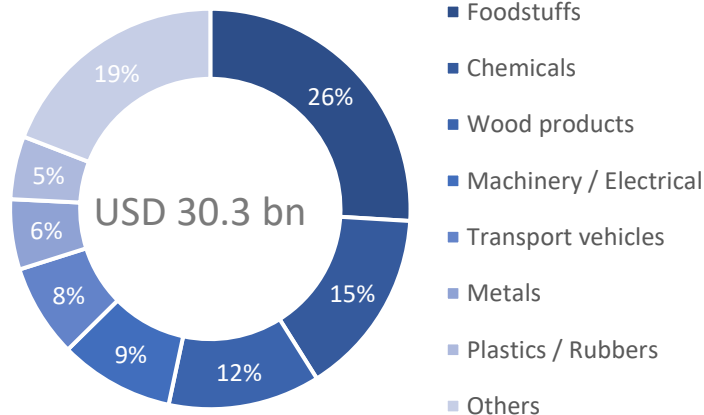
	Belarus	Russia	Ukraine	Moldova	Georgia
GDP, USD bn	73.1	2184.3	184.1	18.1	33.2
GDP per capita, USD	8,008	14,953	5,505	7,369	8,883
Population	9.1	146.1	33.4	2.5	3.7

Source: IMF World Economic Outlook, October 2024. Estimates for 2024

Trade structure*

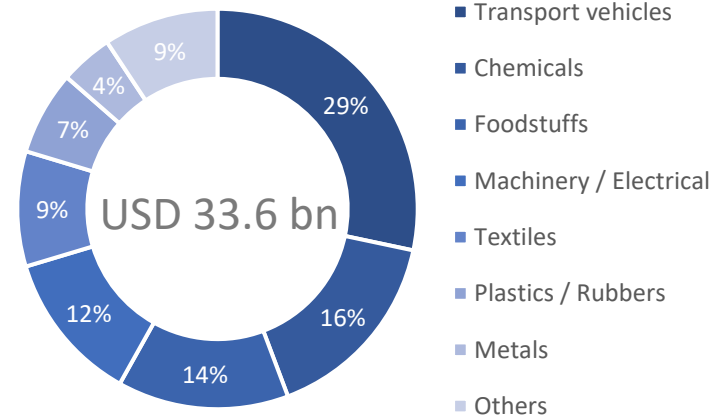
Exports

CIS 68% | EU 4% | CHN 6% | Others 22%



Imports

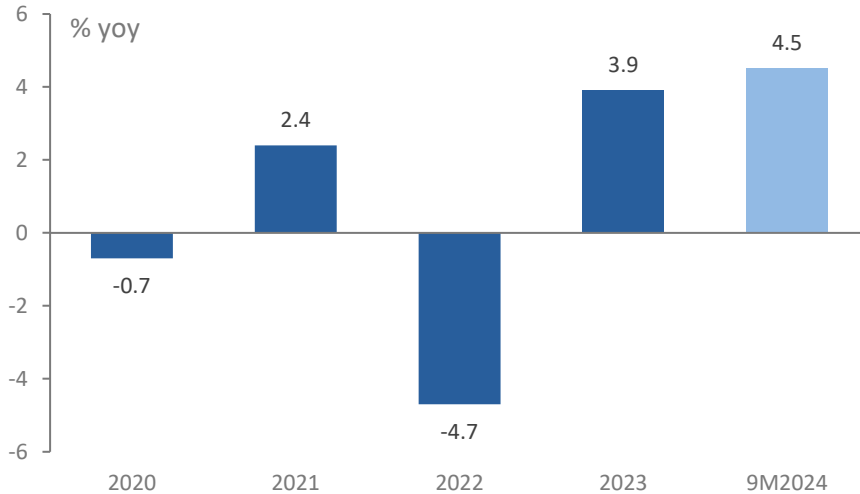
CIS 56% | EU 20% | CHN 13% | Others 11%



Sources. Totals: 9M2024 data from Belstat. Trade partners: Belstat and comtrade data for 2023. For shares by goods category: Comtrade data for 9M2024
 *Belarus stopped publication of trade by good category since war outbreak. Good categories reconstructed through mirror statistics from Comtrade, which, however, in 2023 accounted for only 15% of exports and 36% of imports. Main gap in the data due to trade with Russia, which is Belarus main trade partner and also interrupted publication of detailed trade statistics.

Economic growth

Real GDP growth

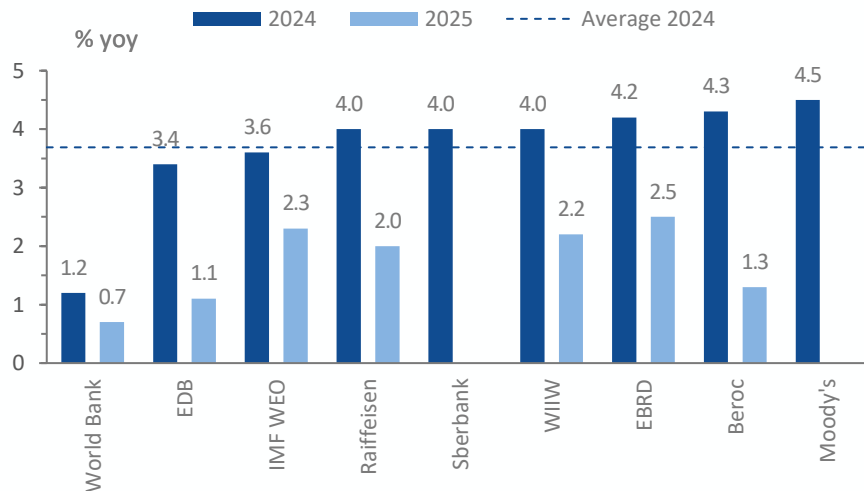


Source: Belstat

Real GDP growth

- » 9M2024: +4.5% yoy driven by private consumption and manufacturing
- » Performance above expectations as Belarus responded to sanctions with an increased trade integration with Russia and other non-Western partners
- » Growth evenly distributed across regions, as stop of decline of IT sector allowed a rebound of growth in Minsk city

Comparison of GDP forecasts



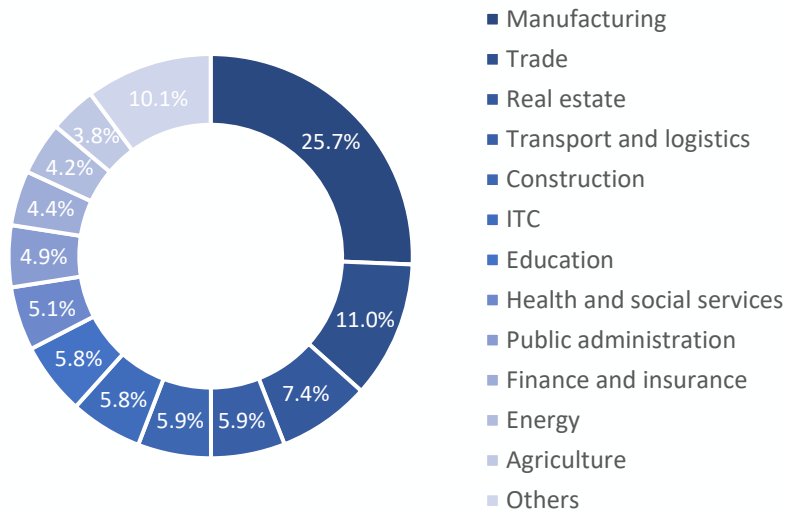
Source: respective institutions.

Forecast comparison

- » Forecasts published in 2H2024 foresee a growth around 4% for 2024
- » Slowdown, with growth around 2% expected for 2025
- Stronger than expected growth in 2024 due to adaptation to the sanction environment, and integration with Russia
- Slowdown expected in 2025

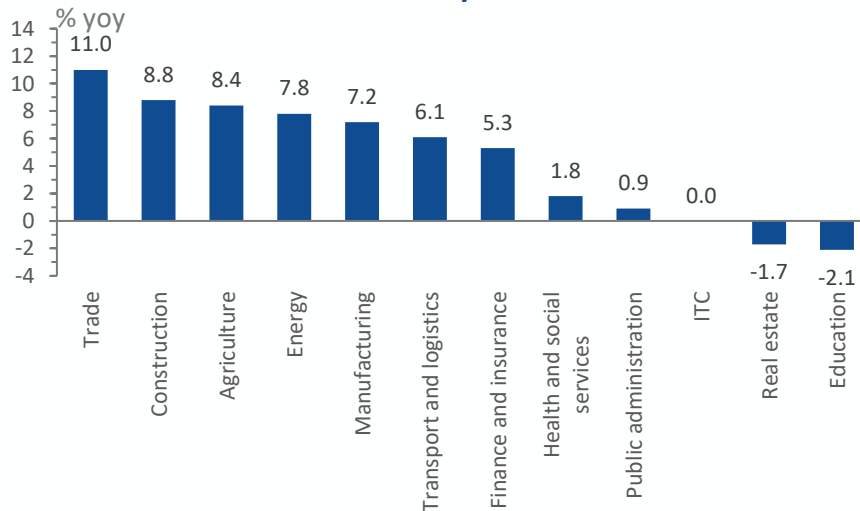
Sectoral perspective

Composition of GDP



Source: Belstat, Data for 9M2024. Note: GVA shares are shown

Sectoral dynamics



Source: Belstat, Data for 9M2024

Composition of GDP

- » Manufacturing, domestic trade and real estate – most important sectors in 1H2024
- » ITC sector share at 5.8%

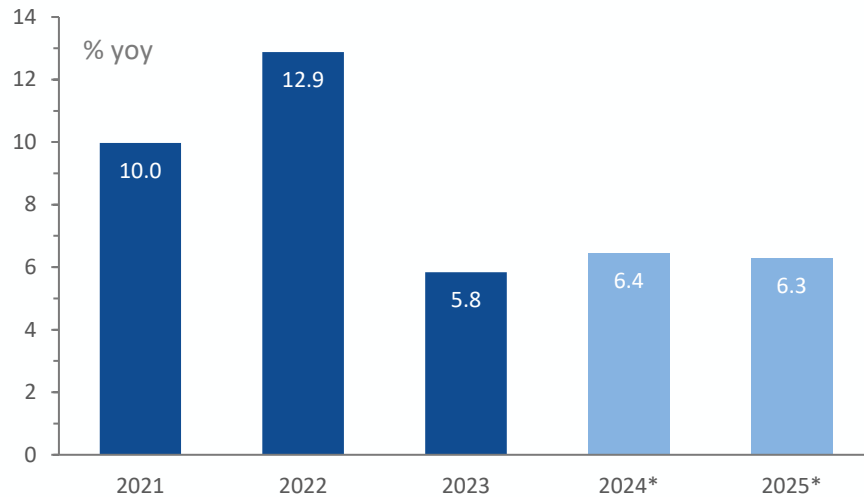
Sectoral dynamics

- » Main contribution to growth in 9M2024 from manufacturing (1.6 pp), domestic trade (1.0 pp), construction (0.4 pp), and agriculture (0.3 pp)
 - Positive impact of government investment programmes for import substitution
 - Adaptation supply chains to sanctions
 - Exhaustion of the decline of the IT sector
 - Increased exports to Russia

- » Growth driven by traditional sectors due to deepened trade integration with Russia
- » Stop of decline of IT sector, but uncertainty for its outlook

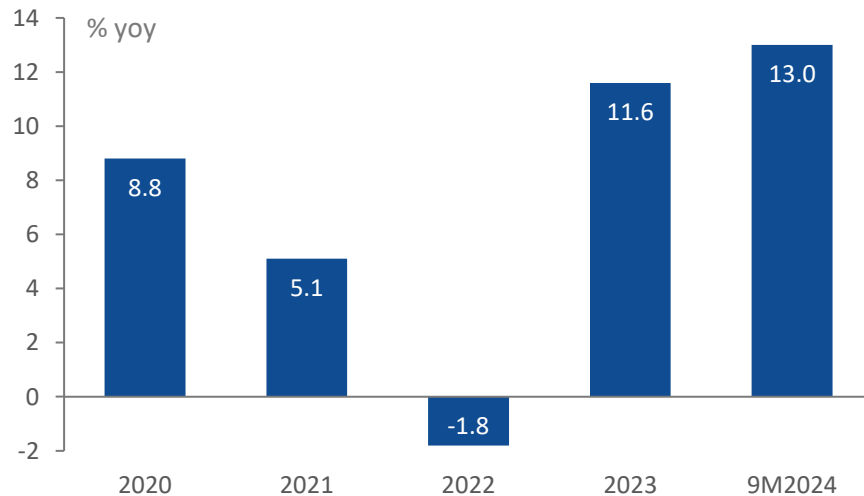
Inflation and wages

Inflation



Sources: Belstat, Consumer prices at the end of period, *IMF estimate/forecast

Real monthly wages



Source: Belstat, **real** average monthly wages in BYN

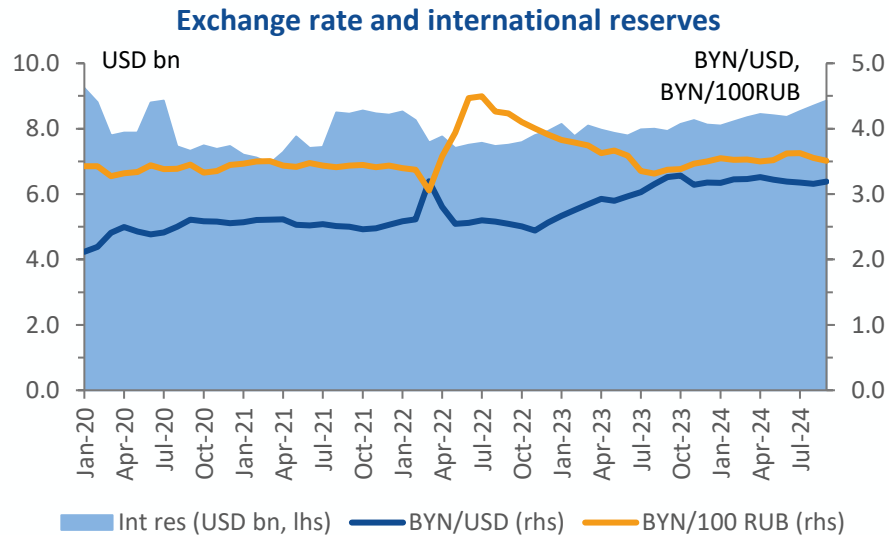
Inflation

- » Inflation declined thanks to price controls and stabilisation of the exchange rate
- » Inflation in Sep-24 at 6.0%, in line with the inflation target of 6.0%
- » IMF expects 6.4% for Dec-24 and 6.3% for Dec-25

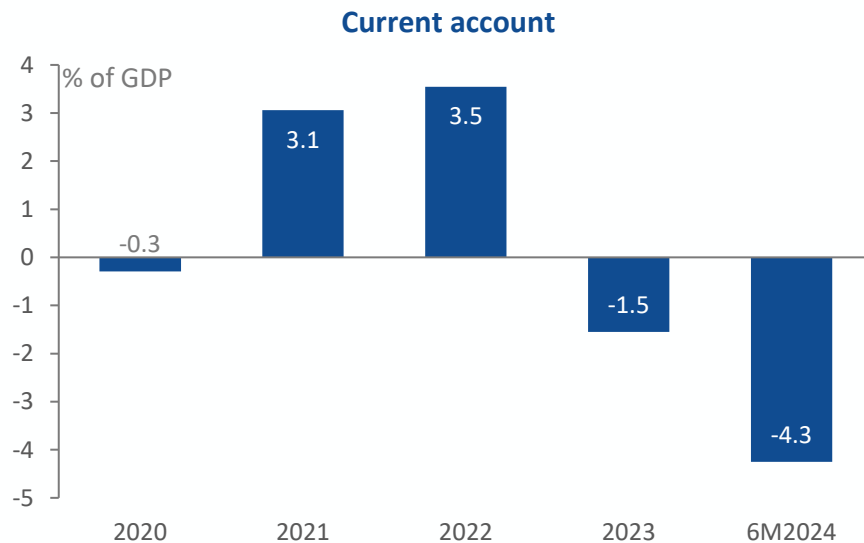
Real wages

- » 2022: decline due to high inflation
- » 2023: growth in all sectors mainly due to labour shortages and inflation below expectations, boosting consumption
- » 2024: trends continues, with real wage growth around 20% in construction, real estate and in manufacturing sectors with higher value-added like production of electronic components and of means of transport
- Positive impact of moderate inflation and labour shortages on real wage dynamics

Current account and exchange rate



Source: NBRB, reserves eop



Source: NBRB

Exchange rate and international reserves

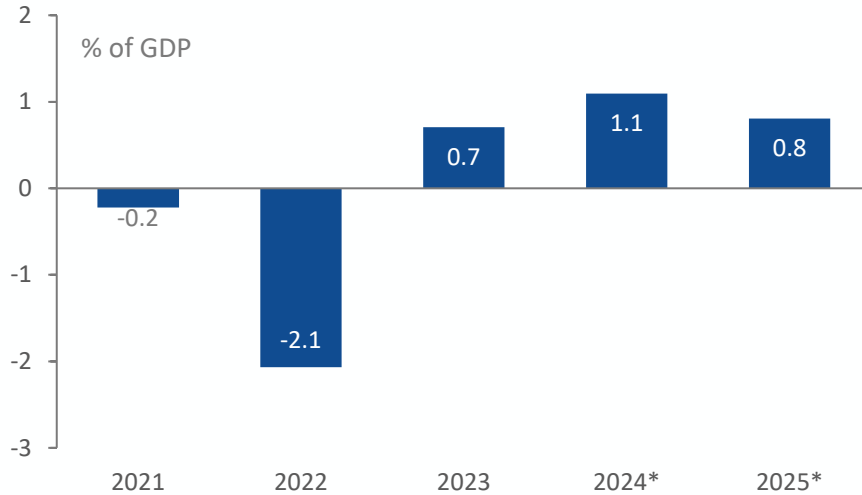
- » Since 2H2023: stabilization at around 3.2 BYN per USD and 3.5 BYN per 100 RUB
- » Exchange rate *de jure* floating, but NBRB likely stabilizes BYN/RUB exchange rate
- » International reserves at USD 8.9 bn (Sep-24), slightly growing as Belarus led to technical default by sanctions, and switched to repayments of Eurobonds in BYN

Current account

- » 2023 and 6M2024: current account deficit, likely due to appreciation vs. RUB
- » Growth of imports from the EU and CHN
- » Weakening services exports due to loss of Western markets and relocation of firms
- Weaker BYN/USD rate, while reserves outflow reduced by technical default
- Sanctions and relocation of competitive firms reduce exports, while appreciation of BYN against RUB and strong wage dynamics increase imports demand

Public finances

Fiscal balance

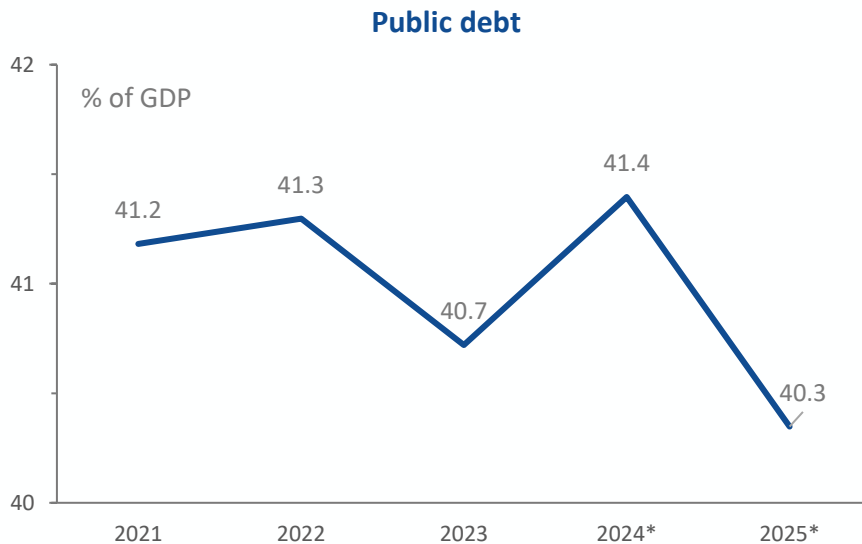


Source: IMF Fiscal Monitor, October 2024, *estimate/forecast

Fiscal balance

- » GDP upward revision and various forms of fiscal subsidies from Russia, reversed initial expectation of a budget deficit for 2023
- » Surplus of 1.1% for 2024 expected
- » Forecast for 2025: 0.8% of GDP

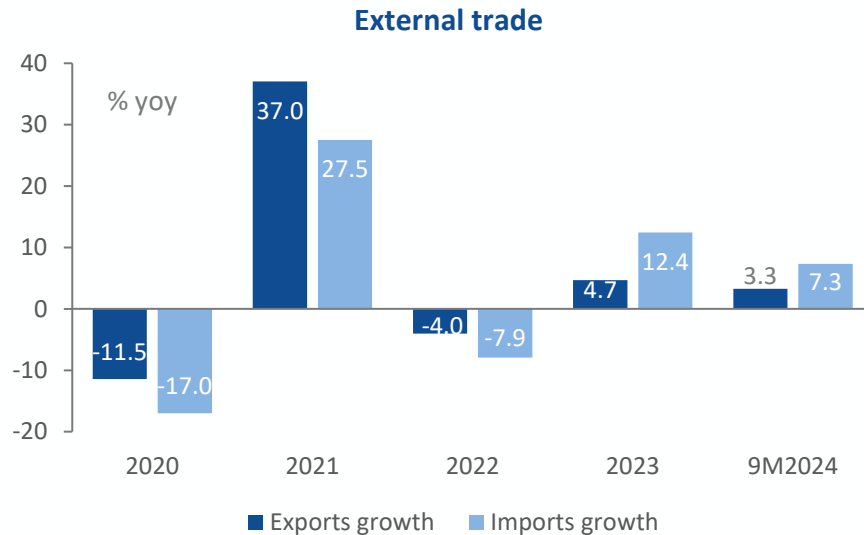
Public debt



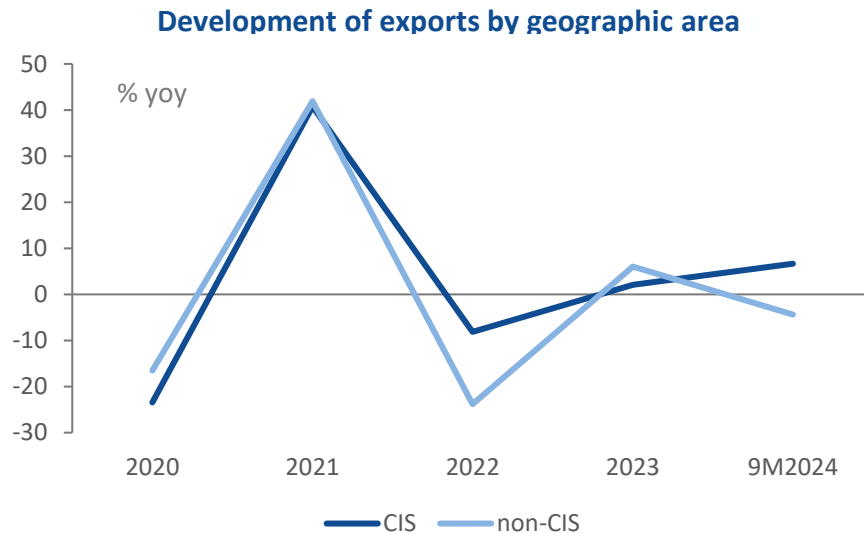
Source: IMF Fiscal Monitor, October 2024, *estimate/forecast

- » 2024: expected increase, but only by 0.7 pp to 41.4 due to high GDP growth and Russian financial support
- » Forecast for 2025: reduction to 40.3%
- » Technical default since Apr-23 as BLR is not servicing Eurobonds in USD
- » Limited (re-)financing options, as international markets remain closed, but financial support from Russia currently easing the fiscal conditions
- » Fiscal surplus and moderate dynamics of public debt mainly due to Russian financial support

External trade



Source: Belstat, Note: trade in goods



Source: Belstat

- » Access to detailed trade data restricted by BLR authorities since mid-22

Exports

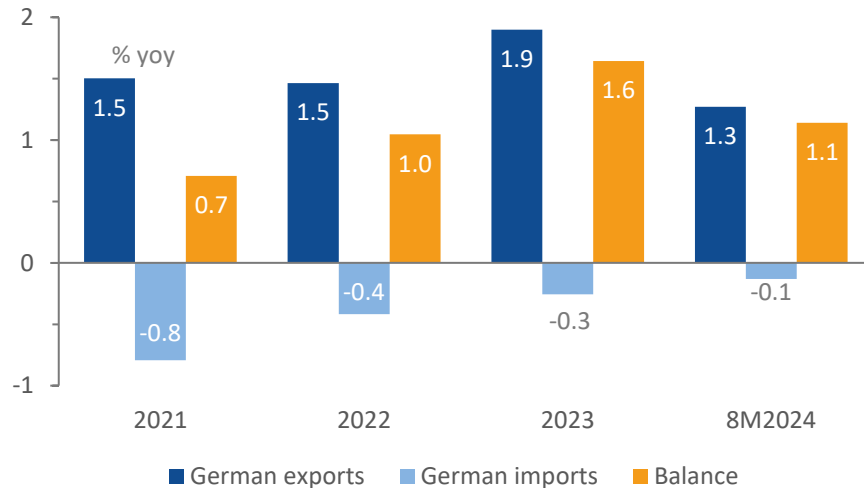
- » 2023: moderate growth in both CIS and non-CIS markets
- » 9M2024: Moderate growth of exports in CIS markets due to increased exports to Russia amidst decline of exports in non-CIS markets

Imports

- » 2023 and 9M2024: increase due to imports from non-CIS countries amid stable imports from CIS countries
- » Main import item: transport vehicles
 - Re-exports to RUS likely
- » Deficit in goods trade of USD 3.1 bn in 2023 and USD 3.4 bn in 9M2024
- Increasing dependence of BLR on the RUS market (also via transit)
- Widening trade deficit

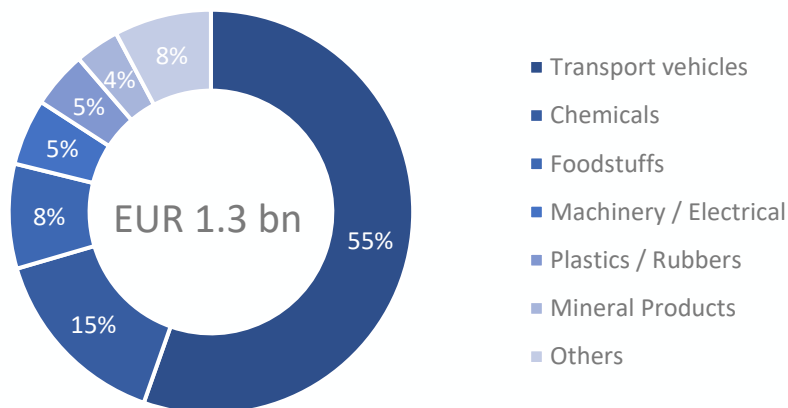
Bilateral trade between Belarus and Germany

German trade with Belarus



Source: Destatis

German exports to Belarus



Source: Destatis, data for 8M2024

German exports

- » Growth of German exports to BLR driven by transport vehicles, mainly used vehicles. Concerns about re-exports to Russia in contravention of EU sanctions

German imports

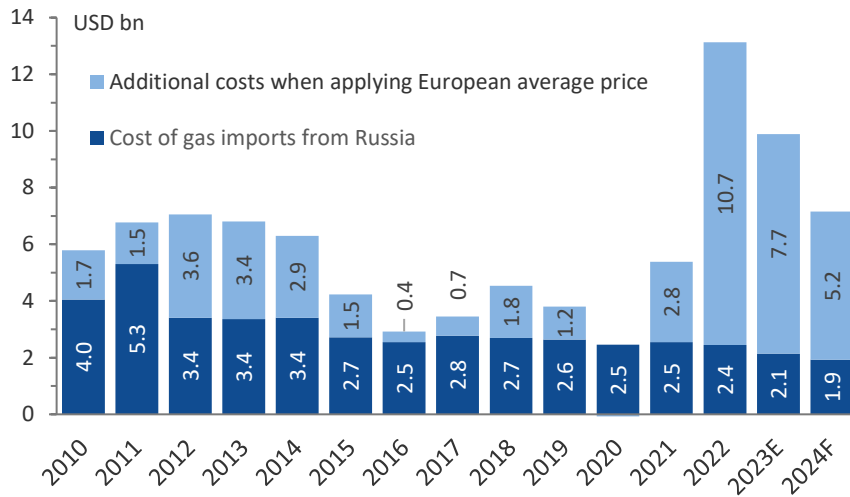
- » Continuous decline due to sanctions, barely EUR 0.3 bn in 2023, EUR 0.13 bn in 8M2024 suggest further decline for current year.

Trade structure

- » Exports: transport vehicles dominant, machinery strongly declined (sanctions), other categories roughly stable
- » Imports: main items include machinery and foodstuffs, but volumes negligible
- Severe decline of imports from BLR, but stable exports due to change in composition
- Surge in exports of transport vehicle raises concerns about sanctions circumvention

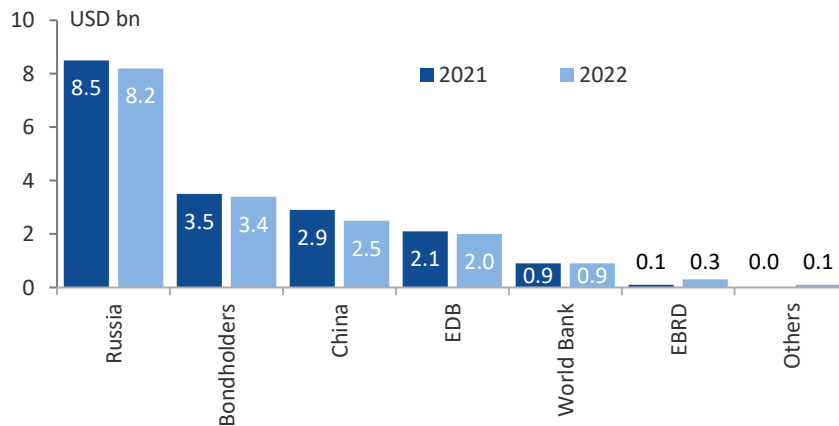
Dependence on Russia

Cost of Belarus' gas imports



Source: Belstat, CB of RUS (until 2021); RUS media (from 2022)

Owners of Belarus' public debt



Source: World Bank, International debt statistics

Energy

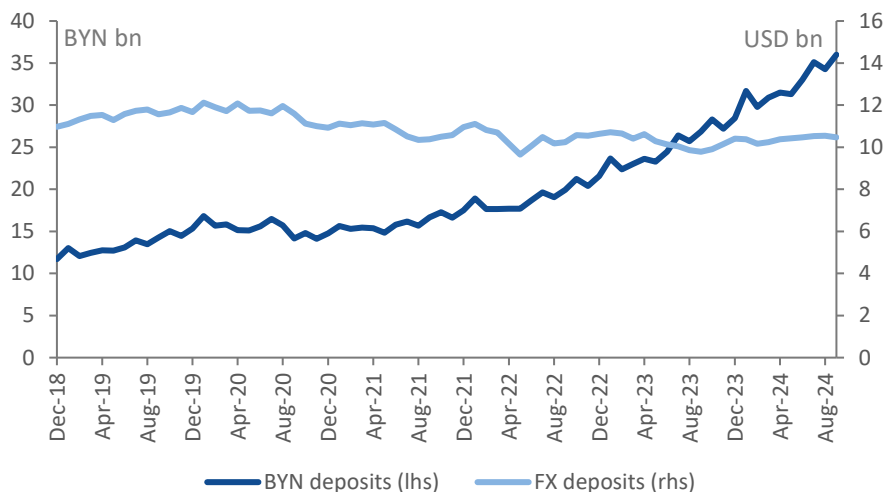
- » Since 2007 trends towards reduction of Russian energy subsidies, reversed after outbreak of war in Ukraine
- » Belarus benefitted from energy subsidies of over 10% of GDP in 2022 and 2023
- » But: subjected to political will of the Kremlin
- » New nuclear power plant foreseen to service 40% of domestic electricity consumption
- » increased diversification of energy sources
- » But: reliance on Russian technology

Foreign debt

- » Political isolation and sanctions further increased Belarus' reliance on RUS financial system
- » Russia main owner of Belarus' public external debt
- Belarus energy sector completely reliant on Russian subsidies and technologies
- Increased dependence also for financing

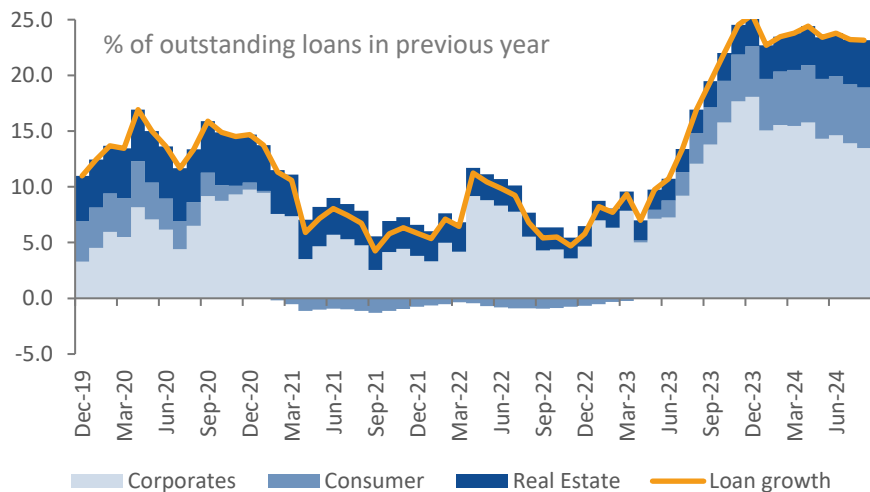
Banking sector

Bank deposits



Source: NBRB, own calculations

Bank loans, outstanding



Source: NBRB, own calculations; *incl. NBFI, **excl. mortgages; constant exchange rates

Bank deposits

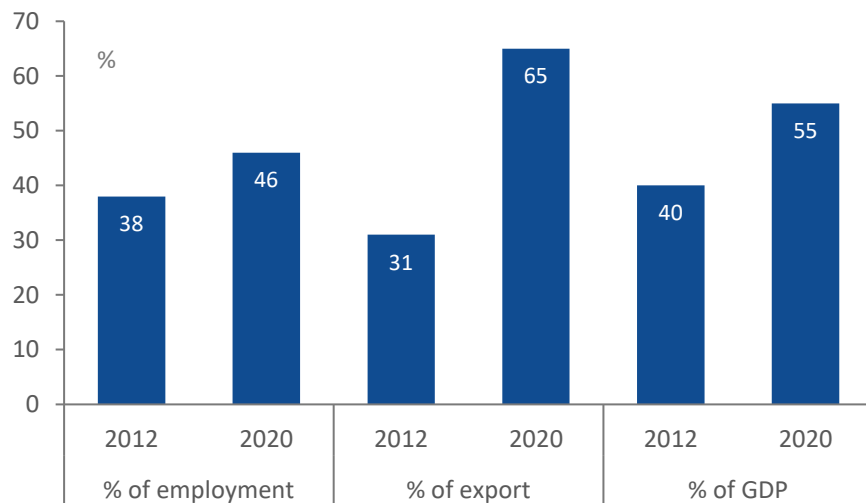
- » Since outbreak of war in Ukraine deposits in FX stagnated at around USD 10.5 bn
- » BYN deposits strongly increased, but nominal increase amplified by inflation
- » Still: acceleration of process of de-dollarization, as higher interest rates encourages deposits in domestic currency

Bank Loans

- » Enhanced growth of bank loans, especially since Jun-23, with biggest contribution by corporate loans
- » Reasons: large investment programmes aimed at import substitution, while increased consumer loans eased by higher incomes
- » But: higher risk of insolvency, especially for consumer loans in case of a slowdown in wage growth
- Decoupling from int. financial markets
- Uncertainty of sustainability of loan growth

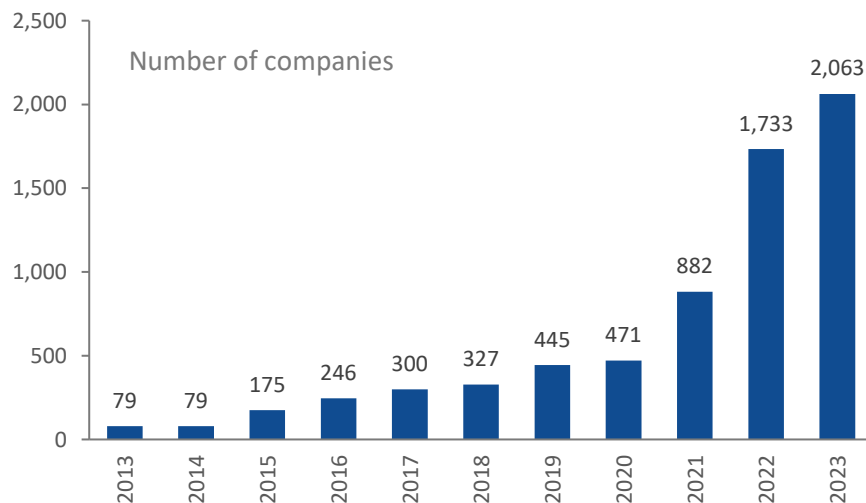
Private sector development and state policy

Share of private sector in the economy



Source: Chubrik (2021) and IPM Research Center (2020)

Registration of companies with Belarusian capital in Poland



Source: Danilchuk 2023 report and own calculations

Private sector

- » Lack of functioning market institutions, hinder development of the private sector
- » Still: **weight** of private sector in exports, employment, and value added increased until 2020; no reliable data afterwards
- » Government reliant on private sector, as SOEs are often unable to be profitable and provide fiscal revenues

Relocation of companies in the EU

- » Trends towards relocation of business in the EU strengthened with outbreak of war in UKR, caused a loss of parts of the most dynamic sectors of the economy (e.g. IT)
- » Still: presence of diaspora abroad could become a strength in case of a future political transition
- » Lack of functioning institutions hinders economic development in Belarus
- » Relocation of business worsens **current** economic conditions in Belarus but may be a strength in the future

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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