

BELARUS

Table 1

	2021
Population, million	9.4
GDP, current US\$ billion	68.4
GDP per capita, current US\$	7279.8
Upper middle-income poverty rate (\$5.5) ^a	0.1
Gini index ^a	24.4
School enrollment, primary (% gross) ^b	100.5
Life expectancy at birth, years ^b	74.2
Total GHG Emissions (mtCO ₂ e)	60.7

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2011 PPPs.

b/ WDI for School enrollment (2018); Life expectancy (2019).

The Ukraine-Russian war has brought substantial challenges to the Belarusian economy related to new sectoral sanctions, the disruption of trade with Ukraine, and negative spillovers from the Russian economy. While in 2022 debt to the major creditors could be restructured, the ability to meet the 2023 Eurobond repayment looks questionable. Household incomes are expected to fall and poverty to increase as unemployment grows and recession deepens.

Key conditions and challenges

In recent years, Belarus's economy has encountered major headwinds as its growth trajectory remains shaped by external factors. This is due to structural rigidities, an outsized and unreformed public sector, and reliance on deepening economic and financial integration with Russia. The economy has been left vulnerable to regional and global shocks, such as the COVID-19 pandemic.

Disputed 2020 elections led to sectoral economic sanctions, which had limited effects. Export earnings increased, helping to maintain a stable exchange rate and achieve a current account surplus in 2021. Public debt pressures were alleviated through a combination of refinancing and spending of foreign reserves, while their level has been boosted by the August 2021 IMF SDR allocation. Nevertheless, banking sector pressures persist, as withdrawal of FX deposits by households has continued throughout 2020-2021. A bank run has been prevented by a high share of term deposits: about two thirds of all household deposits, and more than 60 percent of FX deposits.

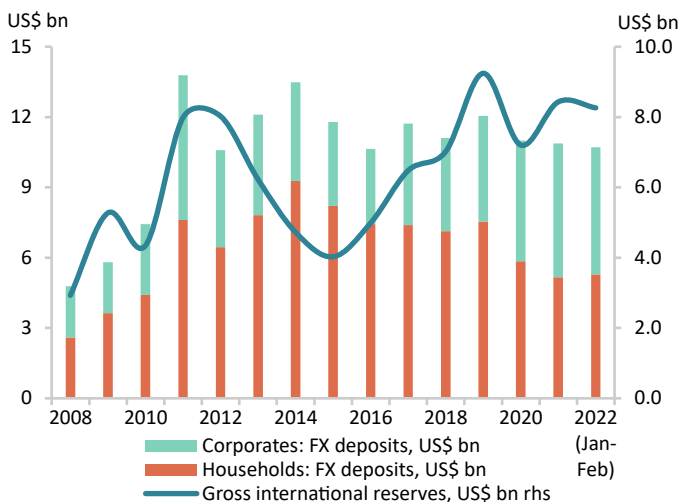
Fresh sectoral economic sanctions introduced on March 2, 2022, seek to prevent exports of tobacco, petroleum, fuels, potash fertilizers, metals, iron, and rubber products to the EU. These restrictions cover at least 13 percent of merchandize exports, or more than a half of exports to

the EU countries. In case the disruption of trade with Ukraine and restrictions on potash trading are taken into account, up to one-third of merchandize exports is affected. Although the price for natural gas imported from Russia will remain at the 2021 level of US\$128.5 per 1,000 cubic meters, this preference will only partially cushion the impact of external shocks. As a result, real GDP could decline by at least 6.5 percent in 2022. The forecasting is subject to uncertainties related to the external circumstances, depending on the course and the outcome of the Ukraine-Russia war.

Recent developments

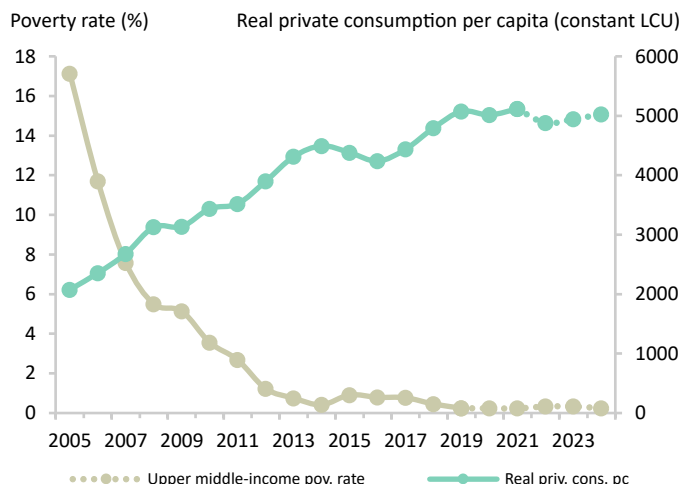
In 2021, real GDP grew 2.3 percent y/y on the back of improved external demand and higher export prices. Sectoral economic sanctions imposed since mid-2021 had limited effects, while the Ukrainian market (a destination for more than 13 percent of merchandize exports) remained accessible. Despite a broadly stable BYN/US\$ exchange rate, consumer price inflation accelerated to 9.97 percent y/y. This is due to an increase in administratively regulated prices, imposition of VAT for selected medicines, and imported inflation, as average import prices went up by 21.3 percent. Expenditure cuts of 1.5 pp of GDP amid a tiny increase of revenues by 0.3 pp of GDP allowed balancing the general government budget. Public debt repayment pressures have been alleviated by refinancing from Russia for US\$1bn and

FIGURE 1 Belarus / FX deposits and gross international reserves, 2008-2022



Source: NBRB.

FIGURE 2 Belarus / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see table 2.

issuing of FX-denominated government bonds by US\$1.2bn, along with spending of foreign reserves in Q1 2021 of US\$0.5bn.

The consequences of the Ukraine-Russia war are yet to materialize. By mid-March, these have been limited to a 20-percent nominal exchange rate depreciation of BYN vis-à-vis US\$, with commercial banks imposing restrictions on FX operations, while the NBRB increased its policy rate by 2.25 pp to 12 percent p.a. As the stock of FX-denominated loans exceeds 60 percent of the total, depreciation weakens corporate balance sheets. The price of Belarus's 2023 sovereign bonds collapsed to below 20 percent of their nominal value.

Business sentiment has continued to worsen, with IT companies relocating abroad, and selected foreign companies restrict their supplies, affecting manufacturers in Belarus.

By the end of 2021, household disposable income growth decelerated from 3.9 to 2

percent, while real pensions decreased by 3.1 percent – the first decrease in five years. However, the national poverty rate fell from 4.8 percent in Q4 2020 to 3.9 percent in Q4 2021.

Outlook

The growth outlook is clouded by extreme uncertainties as economic sanctions continue to widen, and as Russia – Belarus's major trade and financing partner – is facing a slew of far-reaching economic and financial sector restrictions. Various sectoral sanctions against the Belarusian economy affect up to one-third of its merchandise exports, stemming from blocking sales of a broad range of commodities. Earnings from potash exports – estimated to be equal to 3.7 percent of 2021 GDP – are to fall considerably as major transportation routes are sealed. On the other hand, there

will likely be attempts to redirect sales outside the EU market and increase exports to Russia in a bid to fill the void caused by foreign companies discontinuing sales and/or leaving the Russian market.

Even so, Belarus's exports are expected to decline heavily: coupled with tighter monetary and fiscal policy and lower household consumption, this is projected to lead to a real GDP decline of at least 6.5 percent in 2022.

Given that in 2022 more than 40 percent of repayments fall on Russia and the Russia-controlled EFSD, the debt burden will be eased through bilateral debt restructuring. However, this is not an option in case of 2023 Eurobond repayments for US\$ 800 m. Falling GDP will increase poverty and household vulnerability. Broadening of price controls could have limited effect, leading instead to shortages of certain consumer goods, also due to the scarcity of FX in the economy and related restrictions on imports.

TABLE 2 Belarus / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.5	1.5	1.6
Private Consumption	5.1	-1.4	2.6	-4.8	1.5	1.8
Government Consumption	0.4	-1.1	-0.5	-0.3	-1.0	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-18.7	6.2	4.3
Exports, Goods and Services	1.0	-3.2	9.5	-14.2	4.1	3.7
Imports, Goods and Services	5.2	-7.9	5.8	-18.6	5.1	4.8
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.5	1.5	1.6
Agriculture	3.0	4.9	-4.2	-1.8	2.8	3.3
Industry	1.4	-0.7	6.5	-9.4	3.2	5.8
Services	1.3	-2.0	0.2	-4.9	0.0	-2.1
Inflation (Consumer Price Index)	4.7	7.4	10.0	21.1	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	-0.8	-1.3	-1.1
Net Foreign Direct Investment (% of GDP)	2.0	2.1	1.7	0.6	0.6	0.5
Fiscal Balance (% of GDP)	2.5	-1.7	0.0	-1.1	-0.3	0.0
Debt (% of GDP)	37.5	41.1	36.0	36.4	35.5	34.9
Primary Balance (% of GDP)	4.3	0.0	1.6	0.5	1.2	1.5
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	0.2	0.2	0.2	0.3	0.3	0.2
GHG emissions growth (mtCO₂e)	-3.1	-2.7	-3.5	-6.8	-1.0	-0.5
Energy related GHG emissions (% of total)	86.1	85.9	85.6	85.4	85.7	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on ECAPOV harmonization, using 2019-HHS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on private consumption per capita in constant LCU.