**Key conditions and challenges**

Belarus’ economy completed 2022 in a recession with the steepest GDP decline recorded in the last twenty years. The economy was adjusting to economic sanctions introduced after the disputed 2020 elections and in response to Belarus’ involvement in Russia’s invasion of Ukraine. As businesses were exploring new export transportation routes, supply chains and markets, foreign trade dynamics and patterns changed accordingly. The share of Russia and other CIS countries in total merchandise export destinations increased from 60 to 68 percent over one year, while the non-CIS share dropped to 32 from 40 percent. The share of merchandise imports did not change substantially. To offset the repercussions of sectoral economic sanctions and other restrictions, the Belarusian authorities increasingly relied on economic support from Russia. The agreements included: (i) securing preferential gas prices, which are close to domestic prices in Russia, to contain production costs in industry and heating tariffs for households; (ii) obtaining compensation from Russia for the ‘tax maneuver’ to lower the price of imported crude oil and increasing sales of refinery products to the Russian market; and (iii) using Russian ports and other facilities to reroute export flows. Sanctions against the financial sector limited the possibility to borrow from abroad.

The government’s decision to service Eurobonds in local currency instead of US$ (including a US$800 million Eurobond repayment in end-February 2023) resulted in a sovereign ratings downgrade to ‘RD’. Belarus reached an agreement with Russia to defer repayments totaling US$1.4 billion on bilateral loans from 2022-23 to 2028-33 and on the Nuclear Power Plant loan from 2023 to 2024. The authorities seek to reinvigorate growth by boosting investments into import-substitution projects implemented jointly with Russia. However, downside risks remain significant as the likelihood of additional economic sanctions is high subject to Belarus’ role in the war in Ukraine.

**Recent developments**

GDP declined by 4.7 percent, vs. 2.4 percent growth in 2021, reflecting a broad-based output contraction in manufacturing, construction, transportation, wholesale, and retail trade due to logistics and supply chain constraints because of sectoral sanctions. ICT, the most rapidly developing sector, recorded for the first time an annual output decline of 2.2 percent (including 10 percent in H2/22) reflecting business relocation and labor outflow. On the expenditure side, domestic demand remained suppressed as final consumption declined and fixed investments contracted by 14.4 percent by Q3 despite falling real interest rates reflecting a highly uncertain business environment.

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**Real output dropped by 4.7 percent in 2022 after 2.4 percent growth the year before, largely due to an adverse impact of sanctions. Households’ real income declined. As the economy was adjusting to the new environment, trade and financial dependence on Russia increased. Inflation picked up significantly and the government resorted to administrative price controls to bring it down to 15.2 percent.**

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**Table 1**

<table>
<thead>
<tr>
<th>2022</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>9.3</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>72.0</td>
</tr>
<tr>
<td>GDP per capita, current US$</td>
<td>7732.1</td>
</tr>
<tr>
<td>Upper-middle-income poverty rate ($6.85)</td>
<td>1.3</td>
</tr>
<tr>
<td>Gini index</td>
<td>24.4</td>
</tr>
<tr>
<td>School enrollment, primary (% gross)</td>
<td>94.2</td>
</tr>
<tr>
<td>Life expectancy at birth, years</td>
<td>74.2</td>
</tr>
<tr>
<td>Total GHG emissions (mtCO2e)</td>
<td>57.2</td>
</tr>
</tbody>
</table>

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

a/ Most recent value (2020), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

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**FIGURE 1** Belarus / Contributions to quarterly GDP growth

*Source: World Bank calculations based on Belstat data.*

**FIGURE 2** Belarus / Actual and projected poverty rate and real GDP per capita

*Source: World Bank. Notes: see Table 2.*
Total exports dropped by 5.4 percent y/y while imports declined by 6.6 percent in nominal US$ terms. As companies reoriented export destinations towards the East, merchandise exports to non-CIS countries plunged by 24 percent y/y while CIS increased by 9.1 percent. Merchandise imports from both destinations dropped, however, imports from non-CIS countries remained more resilient and even increased from selected EU countries. As imports declined faster than exports, foreign trade remained in surplus at 7.5 percent of GDP and supported CA surplus of 4.1 percent of GDP in January to September 2022.

Headline inflation picked up to 18.1 percent in July. To curb inflation, the authorities introduced price regulations for 330 goods and administratively limited mark-ups for importers and retail trade which helped to reduce the CPI to 12.8 percent y/y in December but reduced the availability of a range of selected goods. Average annual inflation reached 15.2 percent in 2022.

Households’ real disposable incomes declined by 3.6 percent y/y vs. 2.1 percent growth in 2021. Based on the upper middle-income line of US$6.85 a day (2017 PPP), poverty is low and estimated to have increased slightly in 2022.

**Outlook**

A weak economic growth is projected for 2023 as the economy will be further adjusting to an environment shaped by sanctions. A small uptick in economic activity will be supported by a projected recovery in the petrochemical sector, machinery and food processing industries which are oriented towards the Russian market or have established export routes through Russia. Accommodating monetary policy to support credit expansion and import-substitution projects that are planned to be jointly implemented with and financed by Russian loans would also support some recovery in manufacturing. Supply-side and logistical constraints will still remain and will be partially alleviated by ‘parallel’ imports. This will still have an adverse impact on producers.

Private sector growth will be affected by tightening business conditions due to changes in the tax code, which imply a 100 percent increase in tax rate paid by self-employed physical persons and individual entrepreneurs, while the simplified tax regime for individual entrepreneurs will be eliminated. Resuming household income growth will depend on the extent to which economic growth can be maintained in a challenging external environment with constrained fiscal space. Poverty is projected to decrease only marginally in 2023 on the back of weak growth.

The medium-term outlook remains bleak as the downside risks remain significant including the possible introduction of additional sectoral sanctions, possible negative spillovers from the Russian economy, failures to adjust to the sanctions regime, and expansionary domestic policies in a bid to spur growth at the expense of maintaining macroeconomic and financial stability. Also, forecasting is affected by an increasing lack of access to important data, including on fiscal accounts, production and trade of sanctioned commodities, and the structure of foreign reserves.