BELARUS

Table 1	2022
Population, million	9.3
GDP, current US$ billion	72.0
GDP per capita, current US$	7732.1
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.1
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	59.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2021).

Despite robust growth, the economy faces challenges from supply bottlenecks due to sanctions that target major currency-earning sectors, hindering exports and redirecting trade routes. Growth is bolstered by rebounding domestic demand, driven by accommodative monetary and fiscal policies, redirection of trade routes, and rising external demand from the eastern markets. As monetary and fiscal policies approach their limits, the increasing dependence on Russia and the looming threat of sanctions in the transportation sector pose significant risks.

Key conditions and challenges

Belarus's economy is experiencing a robust rebound following its sharpest GDP decline in two decades in 2022. Strong administrative measures have curbed inflation to single digits and stabilized the exchange rate. Soft monetary and fiscal policies are providing essential support to domestic demand, as reflected in strong real growth of disposable incomes. However, potential GDP decreased after the introduction of sanctions and while investment activity is showing signs of improvement, it has not yet reached historical levels.

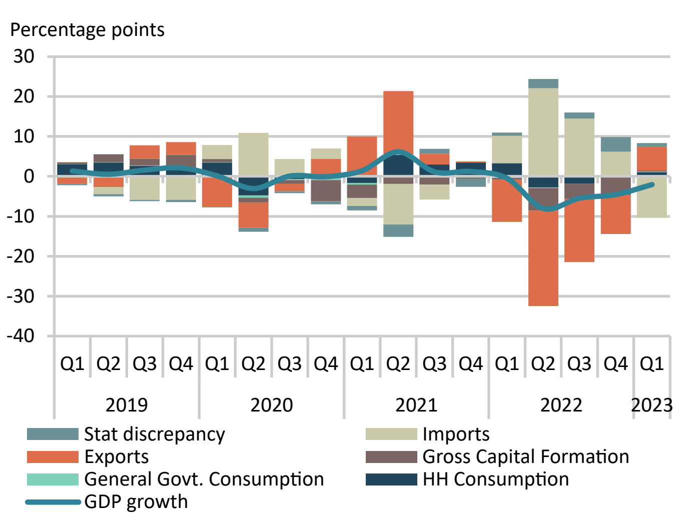
The economy is actively adapting to sanctions, forging new trade routes, and redirecting exports, particularly in potash fertilizers and refined oil products, through Russia, albeit with increased logistics costs. The current focus lies on import substitution strategies to address supply issues and boost local production. However, even if proven to be efficient, these efforts will take time to yield results, leaving Belarus vulnerable to weak external demand, particularly if Russia's economic outlook deteriorates.

Elevated security concerns and geopolitical tensions exert additional pressure on the economic outlook, especially if more sanctions are introduced, such as the closure of the western border for passenger and cargo transportation. Prolonged adherence to accommodative policies presents challenges, requiring Belarus to delicately balance the preservation of social benefits, wages, economic support, and overall economic stability. This, coupled with a declining current account and exchange rate, price controls, and labor force constraints, pose risks of high inflationary pressures. Lastly, Belarus's economy continues to grapple with its Soviet-era structure and a focus on quantitative growth with diminishing prospects of economic diversification.

Recent developments

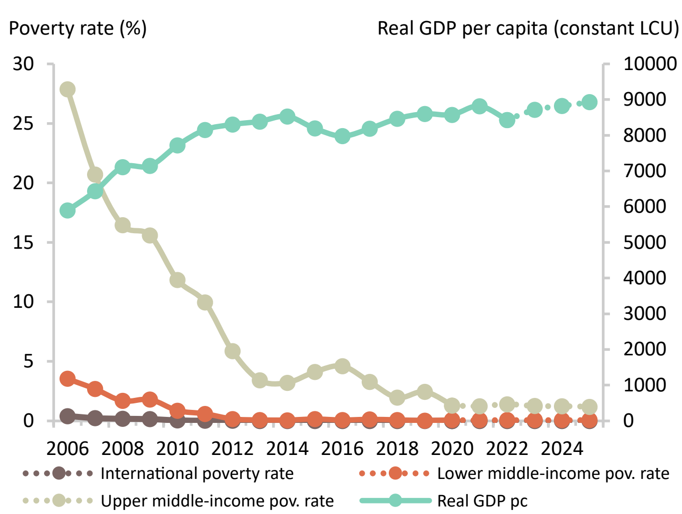
Benefiting from resilient demand from Russia, accommodative monetary policy, and a low statistical base, GDP grew by 3.1 percent in the first eight months of 2023. Growth was driven by manufacturing (9.6 percent), construction (8.7 percent), and retail and wholesale trade sectors (8.6 percent), recovering from the 2022 dip. The agricultural sector decreased (1.7 percent) due to lower grain harvest compared to last year. Conversely, the IT and transport sectors contracted, due to sanctions and labor migration. On the demand side, monetary and fiscal conditions fueled fixed investments (8.6 percent), while robust wage growth, decelerating inflation, and attractive interest rates on housing and consumer loans drove household consumption. Net exports made a negative contribution, as exports trailed behind imports due to sanctions and the collapse of IT services exports.

FIGURE 1 Belarus / Quarterly real GDP growth and contributions to real quarterly GDP growth



Source: World Bank calculations based on Belstat data.

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



Source: World Bank. Notes: see Table 2.

Inflation slowed to 2.3 percent in August (YoY), driven by the base effect and price controls, resulting in 5.6 percent inflation during January-August 2023. This led to a reduction in the base interest rate in June to 9.5 percent from 12 percent in January 2023.

Sanctions have left the external position vulnerable, relying heavily on Russian credits. Exports grew by 8.6 percent in H1 2023, driven by Russian demand and commodity prices. However, with rising real household incomes, imports grew significantly (23 percent), reducing the trade balance surplus. Remittances remained strong (27 percent), but the current account deficit expanded by 30 percent y/y in the first quarter. This deterioration in the current account did not significantly impact external debt (-5 percent) or foreign reserves. However, foreign reserves in hard currency experienced an 8 percent reduction, reflecting Belarusian ruble volatility, which mirrors the Russian ruble.

Households' real disposable income declined by 3.6 percent in 2022 but grew by 3.9 percent in H1 2023 due to higher real wages and pensions. As a result, poverty, as measured by the national poverty line, remained stable at 3.9 percent in Q1 2023.

Outlook

While the economy redirects toward the East following the imposition of sanctions and the recession of 2022, the economic prospects appear dim. Recent macroeconomic stability masks deep-rooted inefficiencies and growing reliance on one partner. In 2023, growth is anticipated to be stimulated by expansionary policies, support to SOEs, and recovering disposable income. Nevertheless, GDP growth will stabilize at around 3 percent as the stimulative economic policies reach their limits, and a full recovery from the 2022 downturn is projected by 2024/25. Consumption, the main driver of aggregate demand, which slumped in 2022, will be underpinned by real wage increases (8.4 percent in seven months) and announced pensions and wage increases in the public sector in September. Likewise, investments are projected to have a positive contribution, particularly propelled by the construction sector, but less machinery. Amidst robust domestic demand and curbed foreign trade, imports are expected to outpace export growth, resulting in a negative net export contribution.

In the medium term, growth is anticipated to remain below potential, with domestic demand substantially curtailed due to diminished foreign exchange earnings and projected tighter monetary and fiscal policies. Excepting sectors aligned with Russian exports (oil, fertilizers, and machinery), investments are projected to decelerate as the economy remains insulated. Against this background, with limited potential for growth, the economy may follow a close to zero growth trajectory. Inflation is forecasted to stabilize at 8.2 percent, with a gradual decline to 7.2 percent expected by 2025 if administrative measures are effectively maintained. Lower external demand and commodity prices are projected to erode the current account balance, leading to currency pressures. The fiscal outlook is anticipated to worsen, with fiscal deficits expected due to the government's pursuit of economic stimulus and job preservation measures. With real disposable income up 3.9 percent over January-June 2023 compared with the corresponding period of 2022, poverty is projected to fall in 2023 to a level comparable to 2021, though the fall is likely to be tempered by the decline in the number of employed experienced so far during all months in 2023.

TABLE 2 Belarus / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.7	2.4	-4.7	3.0	0.8	0.7
Private consumption	-1.1	4.9	-1.2	4.1	2.5	2.4
Government consumption	-2.0	-0.8	-0.1	1.5	0.2	0.0
Gross fixed capital investment	-3.9	-5.5	-13.3	7.6	0.8	1.1
Exports, goods and services	-3.7	10.1	-12.3	10.5	2.8	2.5
Imports, goods and services	-7.4	5.7	-11.4	14.8	4.7	4.4
Real GDP growth, at constant factor prices	-0.7	2.4	-4.7	2.8	0.7	0.7
Agriculture	4.8	-4.1	4.4	4.1	2.0	2.3
Industry	-0.4	3.1	-6.2	8.9	1.9	1.2
Services	-1.8	3.0	-5.1	-1.9	-0.5	0.1
Inflation (consumer price index)	5.5	9.5	15.2	8.2	8.9	7.2
Current account balance (% of GDP)	-0.3	3.1	3.7	0.8	-1.1	-1.4
Net foreign direct investment inflow (% of GDP)	2.1	1.9	1.8	1.8	1.9	1.8
Fiscal balance (% of GDP)	-1.7	0.0	-2.1	-1.0	-1.5	-1.2
Revenues (% of GDP)	37.9	37.4	34.7	35.7	36.0	36.2
Debt (% of GDP)	41.1	35.8	39.6	40.3	41.3	42.6
Primary balance (% of GDP)	0.0	1.7	-0.6	0.0	-0.5	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.3	1.2	1.4	1.2	1.2	1.2
GHG emissions growth (mtCO2e)	-1.6	-1.9	-5.7	-0.5	-1.1	-0.5
Energy related GHG emissions (% of total)	85.7	85.7	85.6	85.9	85.9	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.