



BELARUS

Highlights

- **The impact of Covid-19 on economic growth in 2020 was limited.** The authorities did not impose a full lockdown but they increased support to the real sector and halted the gradual phasing-out of directed bank lending to the state sector. The contraction of the services sector and domestic consumption was moderate, while manufacturing remained flat.
- **Economic recovery in the short term is facing significant uncertainty due to sanctions.** Export industries could have serious challenges in reaching developed Western economies while many domestic industries could face supply disruptions.
- **The general environment in the country and the business climate have been worsening.** Developments after the presidential elections and sanctions imposed by many developed economies made investors more reluctant than before to engage in the country.

Key priorities for 2022

- **The authorities should resume the gradual phase-out of directed lending.** During the Covid-19 pandemic, the support of state-owned banks to state-owned enterprises (SOEs) helped weather the negative impact of the Covid-19 crisis. However, this also significantly increases vulnerabilities in the medium term.
- **A regulatory level playing field is needed to unleash the full potential of private companies.** Private companies still face regulatory discrimination in many sectors of the economy. Liberalising economic governance and introducing appropriate market regulation are critical for restarting the stalled economy.
- **Improving corporate governance and commercialising the state-owned sector are utmost priorities.** Inefficiencies and a lack of corporate governance in SOEs are seriously undermining the growth potential of the economy. Further delays to corporate governance reforms will have long-term negative consequences on SOE valuations and growth prospects.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	2.5	3.1	1.4	-0.9	2.0
Inflation (average)	6.0	4.9	5.6	5.5	9.2
Government balance ¹ /GDP	-0.3	1.8	0.9	-2.9	-3.9
Current account balance/GDP	-1.7	0.0	-1.9	-0.4	0.4
Net FDI/GDP [neg. sign = inflows]	-2.2	-2.3	-2.0	-2.2	-1.8
External debt/GDP	72.8	65.5	63.1	70.0	n.a.
Gross reserves/GDP	13.4	11.9	14.6	12.4	n.a.
Credit to private sector/GDP	20.9	21.3	21.9	23.7	n.a.

¹ Includes central government, local government and social security funds.

Covid-19: macroeconomic implications

In the absence of a full lockdown, the impact of Covid-19 on the economy in 2020 was limited. Gross domestic product (GDP) contracted by 0.9 per cent in 2020 due to a decline in final consumption and investment by 1.4 and 8.3 per cent respectively, while net exports increased by 2.7 per cent. The services sectors fell by only 2.1 per cent. However, subsidised lending to SOEs and sustained real wage growth alleviated the impact of reduced global demand and supported domestic demand. Manufacturing remained flat, while ICT services and agriculture even enjoyed 7.0 and 5.3 per cent growth, respectively. Following the disruptions after the presidential election in August 2020, household deposits in banks and the currency came under pressure. In total, the Belarusian ruble depreciated by 18.2 per cent against the US dollar in 2020. In 2021 the currency stabilised to a large extent, as did the level of deposits withdrawal. However, the lagged pass-through from currency depreciation and rise of global food and energy prices pushed inflation to 10.2 per cent year-on-year in September 2021, well above the target rate of 5 per cent. This caused the National Bank of the Republic of Belarus to raise the refinancing rate twice, once in April and again in July 2021, from 7.75 per cent initially to 9.25 per cent in July. Consumption and investment remained weak, while net exports and manufacturing have been the main drivers of growth, which stood at 2.7 per cent year-on-year from January to September 2021.

Fiscal and financing constraints gave little room for manoeuvre. The fiscal position turned from a surplus of 0.9 per cent of GDP in 2019 to a deficit of 2.9 per cent in 2020. At the same time, foreign reserves declined from a historical high of US\$ 9.4 billion at the end of 2019 to US\$ 7.4 billion in July 2021, covering only 2.4 months of imports. This combination of a lack of available foreign financing, a low level of foreign reserves and substantial debt obligations have left the authorities little room to tackle the impact of economic sanctions. Access to external financing remains difficult and dependent on support from Russia. US\$ 500 million was provided through the Eurasian Fund for Stabilization and Development (EFSD) in October 2020. In December 2020 Russia approved a US\$ 1 billion loan to Belarus, paid in two tranches in 2020 and 2021. A new International Monetary Fund Special Drawing Rights allocation brought a windfall of almost US\$ 1 billion in August 2021, lifting foreign reserves to US\$ 8.5 billion and temporarily easing external financing pressures.

Short-term prospects for recovery are uncertain amid economic sanctions and the ongoing political crisis. Amid a deteriorating environment, the economy is predicted to grow by 2.0 per cent in 2021 and 0.2 per cent in 2022. Economic sanctions and targeting of the export-focused potash and petroleum industries are expected to hit the economy, although with some time lag due to the exemption of contracts concluded before the sanction date. In addition, sanctions-related supply shortages of products originating from developed economies could cause disruption of the production process in many companies. While direct lending of state-owned banks to SOEs helped to sustain the economy through the Covid-19 pandemic, vulnerabilities will likely increase in the medium term.

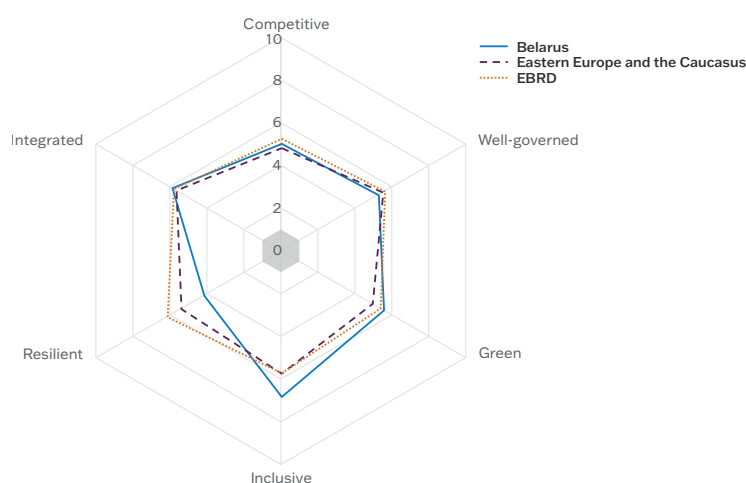
Policy response to Covid-19

The country's crisis-response measures in 2020 were limited amid the resumption of directed lending. Measures included capping price increases on socially important goods, delinking wages from productivity growth in the state sector, production subsidies for public-sector organisations and a significant increase in new directed loans to SOEs. The National Bank of the Republic of Belarus eased prudential requirements, issued guidance to banks recommending loan holidays for targeted customers, released some of its capital buffers and extended the maturity of its refinancing loans.

The government extended its 2020 package of fiscal measures to the end of 2021.

Measures include additional resources for the healthcare sector (such as salary allowances for essential personnel) and tax relief and deferrals to support affected businesses. Employers at risk of having to reduce employment or close down were able to apply for wage subsidies for their employees up to the legal minimum for the period 1 May through to 31 July. Monthly allowances for eligible citizens were extended until August. Most measures were implemented at the local government level. The national vaccination plan for 2021-22 was approved in February 2021. Belarus started producing the Sputnik vaccine and mass vaccination is currently ongoing.

Assessment of transition qualities (1-10)



Structural reform developments

The general business climate worsened after the presidential elections in August 2020.

Among other developments, in May and June 2021 the president signed new laws that significantly limit news media activities and increase the penalties for attending unauthorised demonstrations. The new laws allow the Ministry of Information to shut down media outlets without a court hearing. The penalty for attending protests has been increased from fines or a short jail sentence of up to two weeks, to potentially up to three years. The deterioration of the human rights situation after the presidential elections and resulting sanctions imposed by many developed economies have made potential investors more reluctant than before to engage in the country. International financial institutions have reduced their engagement with Belarus. The reform agenda was, to a large extent, crowded out from the authorities' priorities in the last 12 months.

Previously started activities for integration into the global financial system and digital advances were completed.

In early 2021 the Ministry of Finance joined the International Organization of Securities Commissions (IOSCO) as an associate member. This would have supported the integration of the securities market into the global financial system if financial sanctions had not been introduced. Furthermore, the expansion of remote customer service systems in the non-banking segment of the financial market is ongoing, thus advancing the digital preparedness of the country. In December 2020 amendments to the tax code created the preconditions for the practical functioning of investment funds, aiming to stimulate the creation of new funds through a preferential taxation regime. The first special depository of investment funds was created in 2020.

Currency control regulations were further liberalised. In April 2021 legislation was passed that formalises existing government decrees abolishing restrictions on foreign exchange operations. Individuals and legal entities can open bank accounts at foreign banks without restrictions. The National Bank of Belarus and the government can jointly introduce temporary currency restrictions for a period not exceeding one year in cases of threats to the economic security and stability of the financial system.

