Belarus

**Highlights**

- **Sanctions against Belarus** have been expanded in response to the country’s support of **Russia’s military invasion of Ukraine**. The European Union (EU) and many other developed economies have imposed new economic and individual sanctions targeting Belarus, including further trade restrictions, and bans on access to financial services and markets and the use of logistical services.

- **Political and geopolitical developments have damaged the economy.** Gross domestic product (GDP) fell by 4.9 per cent year on year in the period January to August 2022, while double-digit inflation has depleted real incomes.

- **Belarus’s credit rating has been downgraded.** Both Fitch and Moody’s adjusted Belarus’s credit rating to “restricted default” in July 2022, as the authorities unilaterally decided to pay a US$ 23 million Eurobond debt in domestic currency.

**Key priorities for 2023**

- **Any economic recovery will likely require the improvement of Belarus’s international standing and lifting of sanctions.** Access to the international financial system and to the EU market is an important prerequisite for sustainable economic growth. However, it is clear that it depends on the domestic political situation and on Belarus’s ability to distance itself from Russia’s invasion of Ukraine.

- **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. Both liberalising economic governance and introducing appropriate market regulations are critical for restarting the stalled economy.

- **Improving corporate governance and commercialising the state-owned sector are of the utmost priority.** Inefficiencies and a lack of corporate governance in state-owned enterprises (SOEs) are seriously undermining the growth potential of the economy. Further delays to corporate governance reforms will have long-term negative consequences for SOE valuations and growth prospects.

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**TABLE** Main macroeconomic indicators %

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022 proj</th>
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</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>3.1</td>
<td>1.4</td>
<td>0.7</td>
<td>2.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Inflation (average)</td>
<td>4.9</td>
<td>5.6</td>
<td>5.5</td>
<td>9.5</td>
<td>16.5</td>
</tr>
<tr>
<td>Government balance/GDP</td>
<td>1.8</td>
<td>0.9</td>
<td>-2.9</td>
<td>-1.7</td>
<td>-4.3</td>
</tr>
<tr>
<td>Current account balance/GDP</td>
<td>0.0</td>
<td>-1.9</td>
<td>-0.4</td>
<td>2.7</td>
<td>-1.5</td>
</tr>
<tr>
<td>Net FDI/GDP [neg. sign = inflows]</td>
<td>-2.3</td>
<td>-2.0</td>
<td>-2.2</td>
<td>-1.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>External debt/GDP</td>
<td>69.5</td>
<td>63.1</td>
<td>70.0</td>
<td>61.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Gross reserves/GDP</td>
<td>11.9</td>
<td>14.6</td>
<td>12.4</td>
<td>13.4</td>
<td>n.a.</td>
</tr>
<tr>
<td>Credit to private sector/GDP</td>
<td>21.3</td>
<td>21.9</td>
<td>23.7</td>
<td>23.0</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

**NOTE:**

- Includes central government, local government and social security funds.
Macroeconomic developments and policy response

Geopolitical developments heavily affected the economy in the first half of 2022. The Belarusian economycontracted by 4.9 per cent year on year between January and August 2022 due to toughened sanctions on its economy and recession in Russia, the main trading partner. The new sanctions on industrial goods such as minerals, fertilisers, oil-based refinery commodities and machinery have hurt the economy. The output decline was broad based, with the transport sector down by 16.6 per cent, construction by 12.6 per cent, trade by 9.7 per cent and manufacturing by 7.9 per cent (all year on year). Information and communication technology and agriculture were among the rare sectors that increased output, by 3.8 per cent and 1.8 per cent, respectively. In addition, the country’s interrupted access to the Baltic port in Lithuania has constrained exports to countries that have not joined the sanctions. Exports fell by 3.2 per cent year on year from January to August 2022, but a big drop in imports (by 9.3 per cent) resulted in a trade surplus. At the same time there was a geographical shift of trade in the past year, with exports to the Commonwealth of Independent States increasing by 8.8 per cent, while exports to the rest of the world declined by 20 per cent.

Inflation accelerated and the foreign exchange market came under pressure. The inflation rate reached 17.9 per cent in August 2022 on the back of logistical disruptions, exchange rate depreciation and rising food prices. The Belarusian ruble depreciated by 23 per cent to the US dollar in the first few weeks following Russia’s invasion of Ukraine and gave an additional boost to inflation dynamics. The central bank of Belarus reacted swiftly at the end of February 2022 by lifting the policy rate from 9.25 per cent to 12.0 per cent, and the government introduced an export ban on wheat flour and buckwheat to mitigate the impact of currency depreciation on food prices. The recession-induced trade surplus and the authorities’ decision to repay maturing foreign debt in domestic currency have prevented capital outflows and helped the ruble to recover to its pre-war level. After an initial sharp fall, foreign reserves have stabilised at US$ 7.6 billion in August 2022, which is still a significant reduction compared with US$ 8.4 billion at the beginning of 2022.

The uncertain geopolitical outlook and possible additional rounds of sanctions are creating high uncertainty. The expansion of sanctions by the EU and other developed economies since February 2022 prompted the authorities to look for alternative ports and trade routes as well as to implement import substitution programmes. A new insolvency management regulation prevents many domestic enterprises from becoming bankrupt and introduces mechanisms for rehabilitation. At the same time the authorities have increased the volume of trade with China. However, all these policies are having little effect so far in stemming the economic decline. As a result, GDP is forecast to decline by 5.5 per cent in 2022 and by a further 1.0 per cent in 2023.

NOTE: Belarus is not included in the EBRD region and respective regional averages.
Structural reform developments

The EU and other developed economies have strengthened sanctions against Belarus. In response to Belarus’s role in Russia’s military invasion of Ukraine, the EU and other international actors have imposed new economic and individual sanctions targeting Belarus, including trade restrictions, a SWIFT ban for five Belarusian banks, a prohibition on transactions with the central bank of Belarus, limits on financial inflows from Belarus, and a prohibition on the provision of banknotes to Belarus. They have also expanded sanctions already imposed after the contested presidential elections in August 2020, which were introduced because of continued internal repression and human rights abuses in Belarus. While the Belarusian economy was coping relatively well with the previous waves of sanctions, the new rounds introduced since March 2022 have severely hit the economy.

The situation with human rights and fundamental freedoms has continued to deteriorate. The authorities have continued to use systematic repression and intimidation, including against independent media and civil society organisations. Amendments to the Criminal Code have widened the scope for the use of capital punishment. The EU and relevant international organisations have been calling on the Belarusian authorities to immediately and unconditionally release all political prisoners and cease repression as well as to engage in a genuine and inclusive dialogue with all elements of society, leading to free and fair elections under international observation.

Economic sanctions and restricted access to the international financial system have damaged Belarus’s ability to service external debt. The central bank announced in June 2022 that it would cover payment of a Eurobond in Belarusian rubles rather than US dollars due to economic sanctions. Consequently, both Fitch and Moody’s adjusted the country’s credit rating to “restricted default” in July 2022 after the authorities unilaterally decided to pay the US$ 23 million Eurobond debt in domestic currency.

The authorities implemented export support measures. In April 2022 the authorities adopted emergency support measures to boost exports through additional financing and lower customs fees for export-oriented enterprises. The authorities have also accelerated import substitution programmes by easing trade regulations with Russia to compensate for the loss of intra-regional trading partners. The export support measures include reductions in customs duties of imported commodities and a rearrangement of the logistics networks for exports. Also, the authorities have subsidised enterprises providing social benefits for their employees, in parallel with national initiatives to boost incomes through the social protection fund.

1 The EBRD announced on 4 April 2022 that, following the invasion of Ukraine, its Board of Governors had formally suspended Belarus’s access to EBRD funding for projects or technical cooperation.