



Belarus¹

Highlights

- **The economy is struggling under heavy sanctions.** After a deep recession in 2022, gross domestic product (GDP) growth turned slightly positive in the first half of 2023, while inflation decelerated to a level not seen in many years, mainly due to base effects and a stable exchange rate.
- **Economic uncertainty remains extremely high.** The impact of heavy sanctions on trade and logistical disruptions to links with European Union (EU) economies is constraining the export-oriented and high-tech sectors and undermining any hope of an economic recovery.
- **The EU and other advanced economies have imposed new rounds of sanctions.** As of August 2023, restrictive measures apply to a total of 233 individuals and 37 entities.

Key priorities for 2024

- **Essential first steps towards recovery must be for the country to halt prosecution of civil society, to release political prisoners, and to distance itself from Russia's invasion of Ukraine.** No sustainable growth is feasible unless sanctions are eased and ultimately removed, allowing renewed access to the international financial system and to the EU market and logistics.
- **Urgent steps are needed to improve the business climate and the quality of governance.** Legislation must be clear and unambiguous, and allow for the equal treatment of private and state enterprises. Private entrepreneurs should be relieved from undue pressure from the authorities.
- **The authorities should overhaul and restructure state-owned enterprises (SOEs), which dominate the economy but are plagued by inefficiencies and weak governance.** Commercialisation and the introduction of corporate governance standards in the large state-owned sector could improve growth prospects and asset valuations.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	1.4	-0.7	2.4	-4.7	2.0
Inflation (average)	5.6	5.5	9.5	15.2	4.7
Government balance/GDP	0.9	-2.9	-1.7	-3.9	-0.7
Current account balance/GDP	-1.9	-0.3	3.2	3.7	2.7
Net FDI/GDP [neg. sign = inflows]	-2.0	-2.1	-1.9	-2.0	-0.9
External debt/GDP	63.1	70.0	61.5	54.6	n.a.
Gross reserves/GDP	14.2	12.0	12.4	10.7	n.a.
Credit to private sector/GDP	21.9	23.7	23.0	n.a.	n.a.

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.

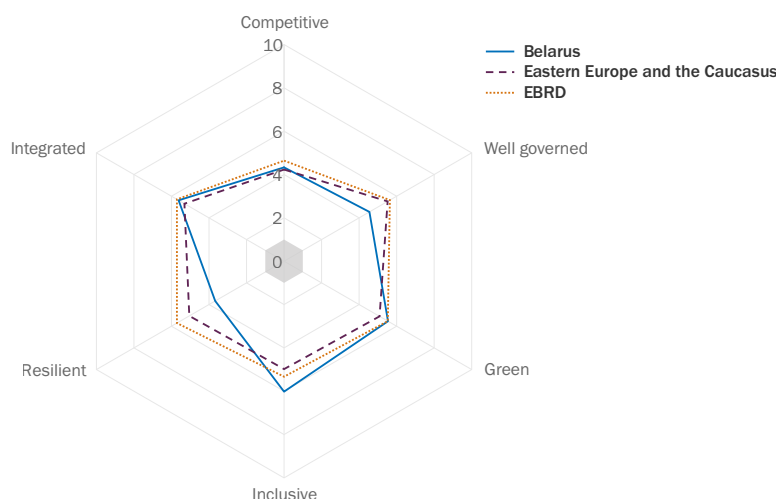
Macroeconomic developments and policy response

Some growth has returned in 2023 after a deep recession in 2022. After contracting 4.7 per cent in 2022, annual GDP increased 2 per cent year on year in the first half of 2023. The economy is nevertheless struggling to adapt to the heavy sanctions imposed by the EU and other trading partners as a result of the country's support for Russia's war on Ukraine. The moderate upturn so far in 2023 is being driven by a rebound in manufacturing, construction and retail trade, which increased 7.6 per cent, 6.1 per cent and 5.5 per cent on the year, respectively, in January to June. In contrast, the information and communications technology sector and the transport sector continued to decline in the first half of 2023, bringing output in both sectors to around 80 per cent of the level of 2021. Exports rose 12.4 per cent and imports 22.6 per cent year on year in January to June, with the direction of exports shifting significantly away from Western countries towards those in the Commonwealth of Independent States. During the first half of 2023 the authorities provided more than US\$ 70 million (€64.7 million) of financial support to over 600 small and medium-sized enterprises (SMEs) in the form of subsidies, soft loans and liquidity. Almost two-thirds of the firms receiving this support were in the manufacturing sector, with the remainder mainly in the agriculture and transport sectors.

Inflation decelerated sharply and the exchange rate remained broadly stable. The inflation rate eased to 2.7 per cent in July 2023, its lowest level in the last 15 years. Base effects from high prices in 2022 were the main reason for the fall; other factors included tight monetary policy, a stable exchange rate and disinflation in Russia, the country's main trading partner. Foreign reserves stabilised at US\$ 8 billion (€7.2 billion) in July 2023, covering 2.3 months of imports. Responding to the falling inflation rate, the National Bank of Belarus reduced its policy rate by a cumulative 250 basis points to 9.5 per cent between January and June 2023. Notwithstanding the positive trends, food inflation edged up slightly in July, the first increase since the middle of 2022.

The short-term outlook remains gloomy. Although the first half of 2023 saw some growth return, the uncertain geopolitical outlook and the possibility of a new wave of sanctions mean that the economy is unlikely to improve significantly in the short term. As a result, the economic growth attained in the first half of the year is likely to be short lived and to moderate to an overall rate of 2 per cent in 2023. We expect this to be followed by a growth rate of 1.3 per cent in 2024.

Assessment of transition qualities (1-10)



Structural reform developments

Structural reforms have stalled amid widespread and expanding sanctions. Although sanctions have been in place in some form since 2004, several rounds imposed by the EU and others since the contested presidential elections in August 2020 and, later, in response to Belarus's role in Russia's military invasion of Ukraine, have been far-reaching. Following the latest round of sanctions adopted by the EU in August 2023, restrictive measures now apply to a total of 233 individuals and 37 entities. Further measures, including the closure of remaining border crossings for vehicles and the suspension of cross-border railway transport links, cannot be ruled out.