BELARUS

Table 1	2023
Population, million	9.2
GDP, current US$ billion	71.8
GDP per capita, current US$	7817.0
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]	94.7
Life expectancy at birth, years[b]	73.1
Total GHG emissions (mtCO2e)	83.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2022).

In 2024, Belarus's economy is projected to register strong growth, driven by Russia's recovery and reduced sanctions impact. However, the long-term growth faces obstacles from the limitations of accommodative policies and ongoing macroeconomic challenges. Tightening monetary conditions, inflation, and currency challenges are expected, while ongoing stimulus measures strain the fiscal stance. The economy's insulation from global trends limits growth and worsens competitiveness and productivity.

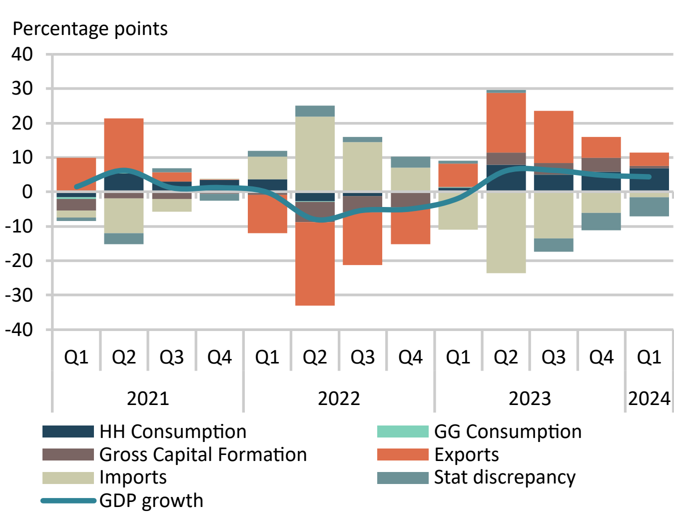
Key conditions and challenges

In 2024, Belarus experienced stronger-than-anticipated economic growth, though this success strains the limits of its economic policy effectiveness. To support domestic demand, the government has employed a range of extensive administrative measures alongside expansionary monetary and fiscal policies. Nevertheless, the country's potential GDP is constrained by the imposition of sanctions and restricted access to advanced technologies, despite efforts to stimulate investment activity. In response to sanctions, Belarus is seeking to establish new trade routes and redirect external trade through Russia, though this shift has resulted in increased logistical costs and payment delays. In the medium term, the government's focus will be on mitigating supply chain disruptions and enhancing local production through import substitution, supported by substantial investments and subsidies from Russia. These administrative adjustments are intended to bolster economic resilience, but increased dependence on the Russian market—amidst growing competition for Belarusian products—exposes the economy to significant risks. The vulnerability to weakened external demand is pronounced, particularly if Russia's economic outlook deteriorates. Addressing labor market rigidities will be crucial, as will investments aimed at stimulating potential growth. Additionally, heightened security concerns and geopolitical tensions exacerbate the economic outlook, with the potential for further sanctions or more stringent enforcement of existing ones. Maintaining accommodative policies presents challenges in balancing social benefits, wages, economic support, and overall stability. This, combined with a deteriorating current account, exchange rate volatility, price controls, and labor force constraints, increases the risk of substantial inflationary pressures. Belarus's economy, with its outdated Soviet-era framework and inefficiencies, combined with limited opportunities for diversification, requires continuous budgetary support and reforms to address its deep-seated economic challenges.

Recent developments

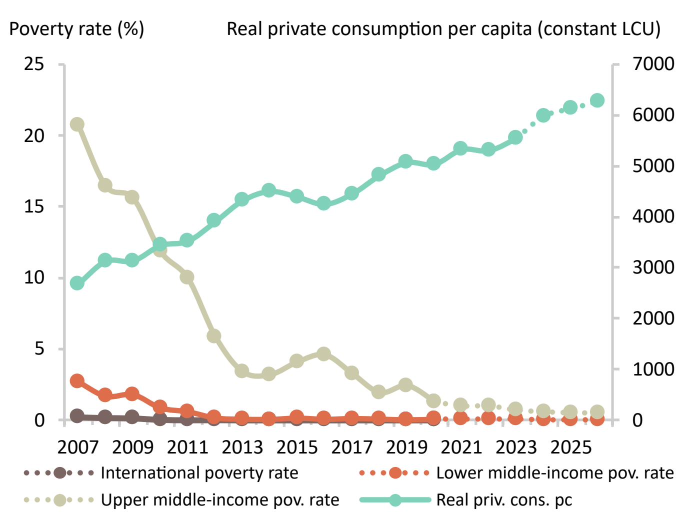
From January to August 2024, Belarus's GDP grew by 4.9 percent year-on-year, with second-quarter performance notably exceeding potential GDP due to robust consumer spending, rising investment activity, and heightened demand from Russia, particularly in the defense sector. The unemployment rate is at a record low of 3 percent amid persistent labor shortages. Domestic trade drove growth, with high industrial sector performance from reduced inventories and increased exports boosting the transport sector. Agriculture benefited from accelerated harvests and favorable weather, while construction activity surged due to investments in the Russian market and import substitution.

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 private consumption per capita



Source: World Bank. Notes: see Table 2.

The IT sector showed signs of stabilization. On the demand side, buoyant household spending, supported by increased lending, moderate interest rates, rising wages, and high consumer confidence.

Inflation reached 5.7 percent in January-August, year on year, driven by non-regulated prices, while regulated prices remained stable. In response, the Central Bank raised the overnight lending rate by 0.5 percentage points to 11 percent and increased the reserve requirement for foreign currency liabilities by 2 percentage points to 20 percent. The national currency depreciated slightly due to sanctions and reduced trade inflows, tracking the Russian ruble's fluctuations. With regional budgets offsetting central spending, the general government recorded a surplus of 1.2 percent of GDP.

The financial sector reported strong profits, mainly from state-owned banks investing in state bonds, with non-performing assets stable. On the back of a mild trade surplus, the current account registered a 3.9 percent GDP deficit for Q1-Q2 2024, despite a 13 percent drop in remittances. The deficit was largely financed by foreign direct investments, with external debt slightly decreasing and foreign reserves rising to USD 8.5 billion by August 2024.

In 2023, real disposable income rose by 6.3 percent, reversing the previous year's decline. Employment fell by 1.5 percent, but real wages and pensions increased. Poverty, based on the UMIC poverty line ($6.85/day 2017PPP), is low and is expected to decrease from 0.69 percent in 2023 to 0.57 percent in 2024.

Outlook

Belarus's economy is projected to grow by 4 percent in 2024, exceeding previous forecasts, though growth is expected to slow in the latter half of the year. This expansion is driven by significant wage increases and improvements in the Russian economy. Manufacturing remains the main growth driver, bolstered by a recovery in external trade, largely fueled by Russian demand. Future growth will depend on effective expansionary policies, support for state-owned enterprises, targeted lending, domestic borrowing, and rising disposable income.

However, the economy faces challenges from mounting inflationary pressures and overall macroeconomic challenges. With a projected slowdown in the Russian economy and tighter monetary policy, the already overheated economy is expected to slow to 1.2 percent in 2025. Consumption will continue to drive growth, though at a slower pace due to a tight labor market, while investments will contribute positively but face constraints from tighter monetary conditions. Net exports may negatively impact growth due to reliance on a single market and a challenging external environment.

In the medium term, inflation, a tight labor market, and financial losses in enterprises, coupled with a shift of resources to less productive sectors, will diminish the effectiveness of economic stimulus measures. With a projected slowdown in Russia, Belarusian growth is likely to fall short of its potential, even with administrative efforts to sustain macroeconomic stability. Elevated inflationary pressures are expected, with prices predicted to rise by 6.5 percent in 2024 and remain above historical averages. Trade logistics and lower commodity prices may strain the current account, leading to currency pressures and a worsening fiscal outlook due to stimulus measures and job preservation efforts. The fiscal outlook is expected to remain challenging due to government stimulus measures, indexation, and job preservation efforts. Despite higher inflation, poverty levels are expected to remain stable through 2024 and 2025.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	2.4	-4.7	3.9	4.0	1.2	0.8
Private consumption	4.9	-1.2	4.1	7.3	2.0	1.9
Government consumption	-0.8	-0.1	1.4	0.9	0.1	0.5
Gross fixed capital investment	-5.5	-13.3	12.1	2.4	1.5	1.3
Exports, goods and services	10.1	-12.3	23.1	3.0	2.8	2.6
Imports, goods and services	5.7	-11.4	29.1	4.7	3.8	4.0
Real GDP growth, at constant factor prices	2.4	-4.7	3.7	3.9	1.3	0.8
Agriculture	-4.1	4.4	-0.4	3.8	1.9	1.1
Industry	3.1	-6.2	8.0	5.7	1.8	0.8
Services	3.0	-5.1	1.1	2.5	0.8	0.8
Inflation (consumer price index)	9.5	15.2	5.1	6.5	6.9	6.2
Current account balance (% of GDP)	3.1	3.6	-1.5	-5.1	-4.9	-5.6
Net foreign direct investment inflow (% of GDP)	1.9	1.9	2.7	1.9	1.9	1.9
Fiscal balance (% of GDP)	0.2	-1.5	1.2	-0.9	-1.1	-1.1
Revenues (% of GDP)	35.7	36.0	41.1	34.8	34.4	34.3
Debt (% of GDP)	35.8	38.7	37.7	37.5	37.8	37.9
Primary balance (% of GDP)	1.8	0.1	2.8	0.7	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.1	0.1	0.0	0.0	0.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	1.0	0.7	0.6	0.5	0.5
GHG emissions growth (mtCO2e)	0.1	-3.7	0.9	1.7	-0.1	-0.1
Energy related GHG emissions (% of total)	62.4	61.7	61.9	62.5	62.5	62.4

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: 2021-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.