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ECONOMIC MONITOR
BELARUS

German Economic Team

Overview

- Economic growth by 3.9% yoy in 2023 due to growth in capital investment and a rebound in private consumption. Collapsing ICT sector (-14.2% yoy) slowed down GDP in 2023
- Growth slowdown to 2.4% yoy (2024) and 1.1% yoy (2025) expected. Reason: continued dependence on fiscal and monetary stimuli instead of sustainable growth factors
- Inflation contained by price controls and exchange rate stabilisation (12.8% yoy in 2022; 5.8% yoy in 2023); substitution of Western goods with alternatives
- Declining revenues and reduced access to int. loans put pressure on public finances; default declared by int. rating agencies; ratings have been withdrawn due to insufficient data
- Unbalanced trade in 2023; BLR trade almost exclusively re-routed to and via RUS; growing dependence on RUS logistical network

Special issues

- **Belarusian car market**. Far-reaching restructuring; dominance of Chinese vehicles, growing domestic car production and an increase in imports from the EU
- **IT industry**. Ongoing deterioration of the former growth engine with the outflow of IT professionals stabilising

Basic indicators

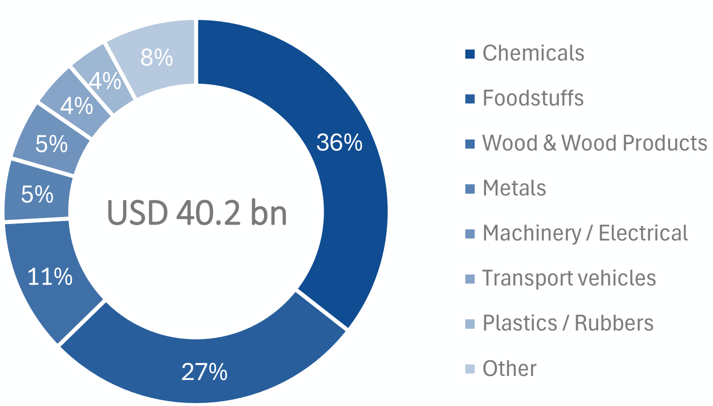
	Belarus	Russia	Ukraine	Moldova	Georgia
GDP, USD bn	72.8	2,272.3	160.5	14.6	25.0
GDP/capita, USD	7,892.7	15,487.7	4,582.6	5,726.1	6,773.5
Population, m	9.2	146.7	35.0	2.5	3.7

Source: IMF World Economic Outlook, April 2024. Data for 2023

Trade structure*

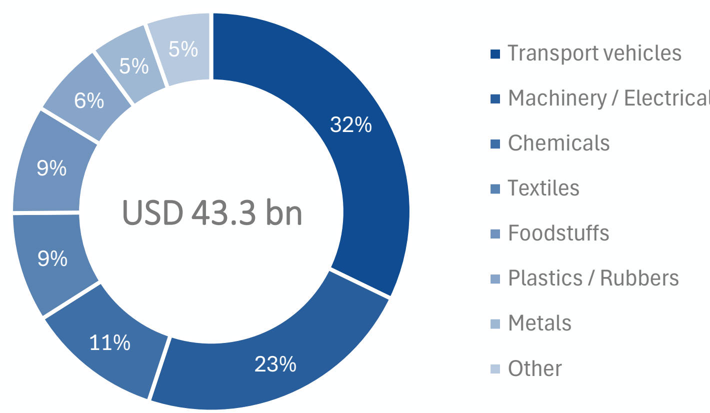
Exports

CIS 68% | EU 4% | CHN 6% | Others 22%



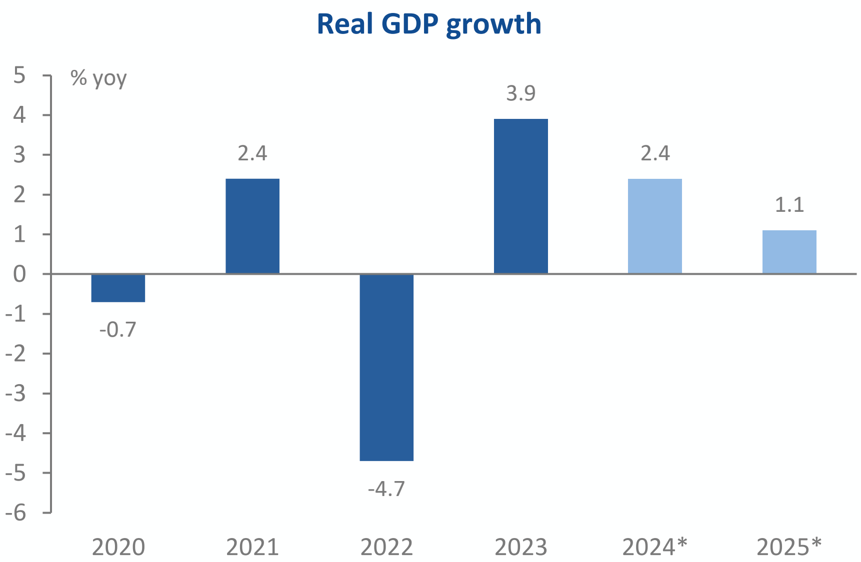
Imports

CIS 56% | EU 20% | CHN 13% | Others 11%

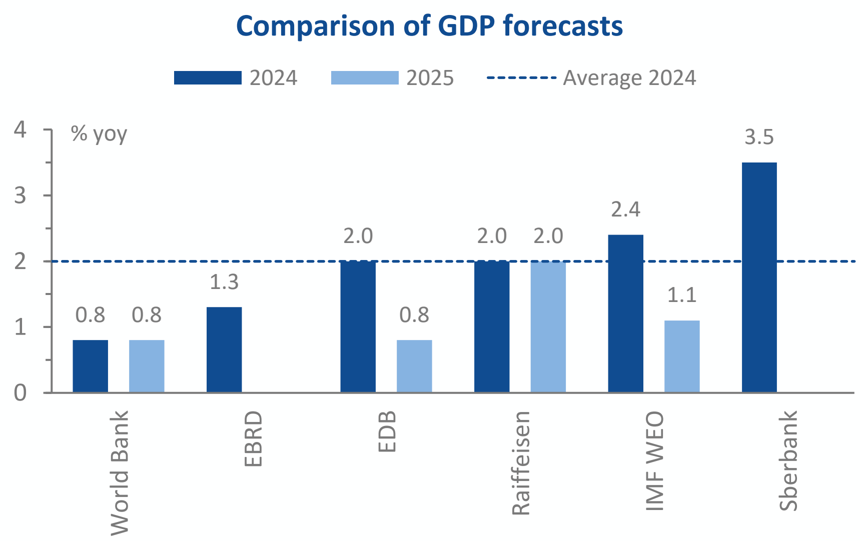


Source: for the totals: Belstat.
**Belarus stopped publication of trade by good category since war outbreak. Good categories reconstructed through mirror statistics from Comtrade, which however account only for 15% of exports and 36% of imports. Main gap in the data due to trade with Russia, which is Belarus main trade partner and also interrupted publication of detailed trade statistics.*

Economic growth



Source: Belstat, *IMF forecast



Source: respective institutions

Real GDP growth

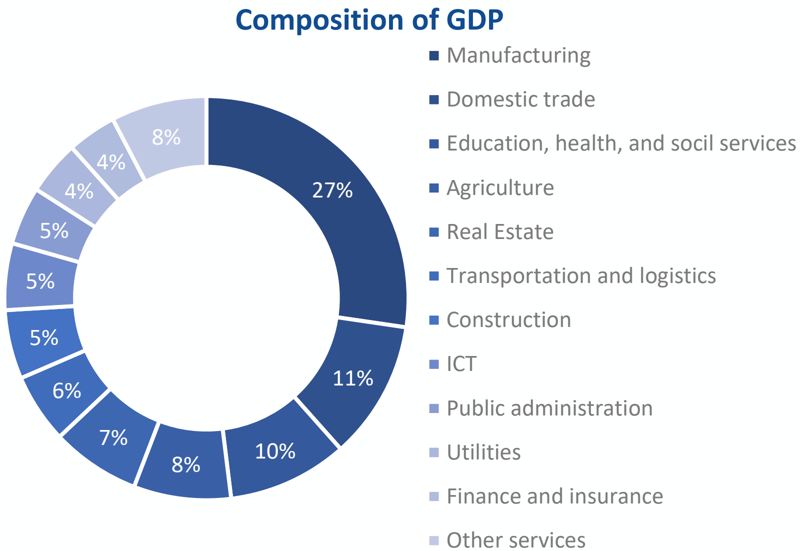
- » 2023: 3.9% yoy driven by private consumption and capital investment, but also by the low base of 2022
- » Growth concentrated in two main regions:
  - Minsk region driven by automotive and fertiliser production
  - Grodno region due to the commissioning of the 2nd reactor of the NPP
  - Growth in Minsk city negatively affected by the decline of the IT industry
- » Reliance on fiscal and monetary stimuli, lack of sustainable growth drivers and continued sanctions pressure are expected to lead to a growth slowdown in 2024 and 2025

Forecast comparison

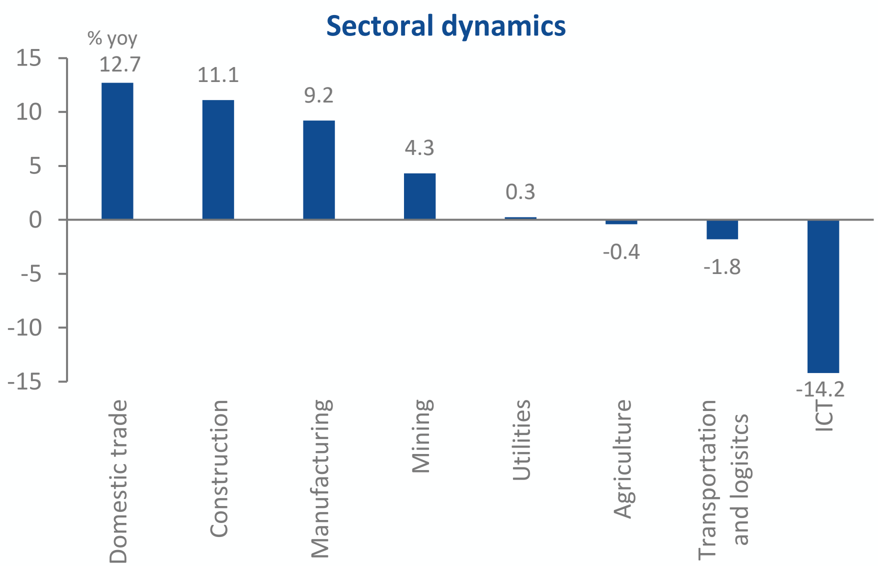
- » 2024: between 0.8% and 3.5%
- » 2025: between 0.8% and 2.0%

➢ **Strong recovery in 2023, but growth slowdown expected in 2024 and 2025**

Sectoral perspective



Source: Belstat, Data for 2023. Note: GVA shares are shown



Source: Belstat, Data for 12M2023

Composition of GDP

- » Manufacturing, domestic trade and agriculture - most important sectors
- » ICT sector sank to barely 5% of GDP mainly due to the relocation of companies and IT professionals

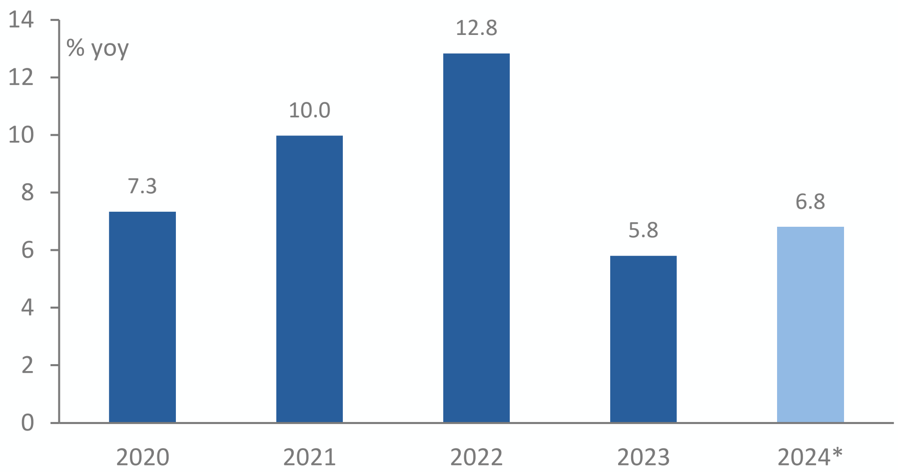
Sectoral dynamics

- » Growth driven by domestic trade, construction and manufacturing
  - Positive impact of real wage growth on domestic trade
  - Governmental support for new all-electric housing projects (due to NPP)
  - Rebound in oil processing; production growth in the automotive sector
- » Decline in transport and logistics
  - New area of dependence on RUS

➢ **Structural reorientation towards traditional sectors, as compliance issues and relocation massively affect the IT sector**

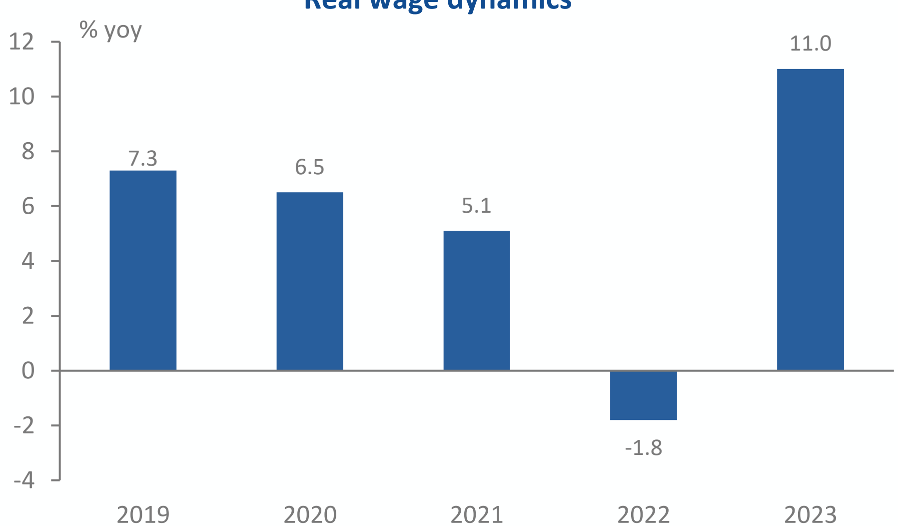
Inflation and wages

Inflation



*Sources: Belstat, IMF, Consumer prices at the end of period, *estimate/forecast*

Real wage dynamics



Source: Belstat, average monthly wages in BYN

Inflation

» Inflation declined thanks to price controls and stabilisation of the exchange rate

» Price controls eroded margins for retailers
  - Consolidation of the sector
  - Market entry of RUS chains
  - Reduced availability of Western goods, replaced by cheaper Russian substitutes

» Mar-24: inflation at 5.6% yoy, in line with the inflation target of “below 6%”

» IMF forecast for 2024: 6.8% yoy

Real wages

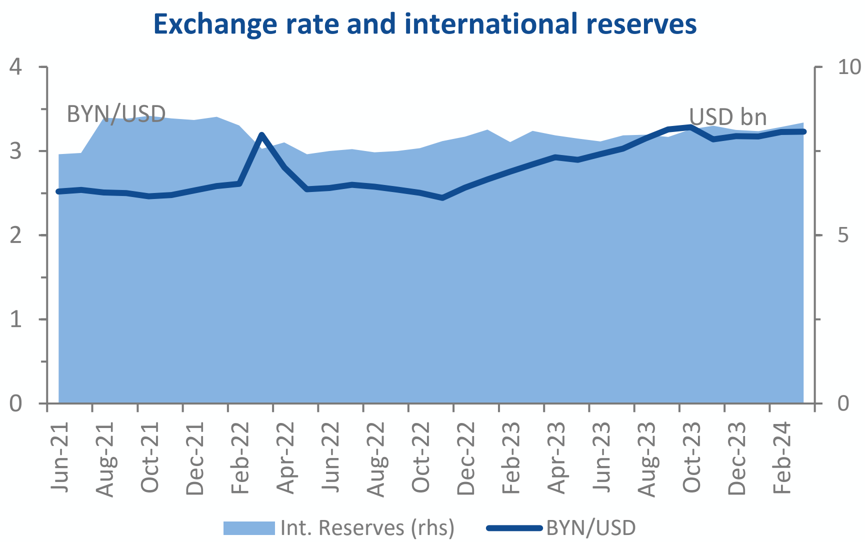
» 2022: decline due to high inflation

» 2023: growth in all sectors (in particular construction and logistics) mainly due to labour shortages and inflation below expectations, boosting consumption

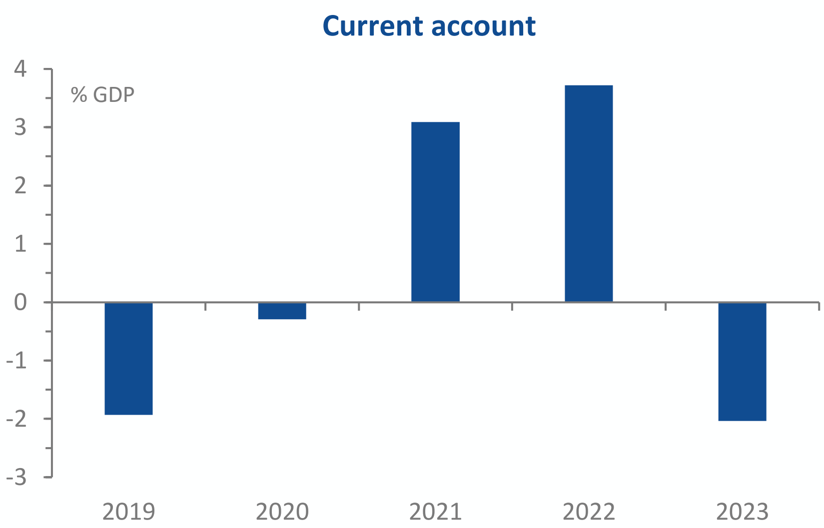
➢ **Positive impact of low inflation on real wage dynamics**

➢ **But: reduced availability of Western goods**

Current account and exchange rate



Source: NBRB, reserves eop



Source: NBRB

Exchange rate and international reserves

- 1H2023: exchange rate depreciation with respect to USD, appreciation towards RUB
- 2H2023: stabilization at around 3.2 BYN per USD and 3.5 BYN per 100 RUB
- International reserves stable at USD 8.2 bn due to switch to debt repayments in BYN

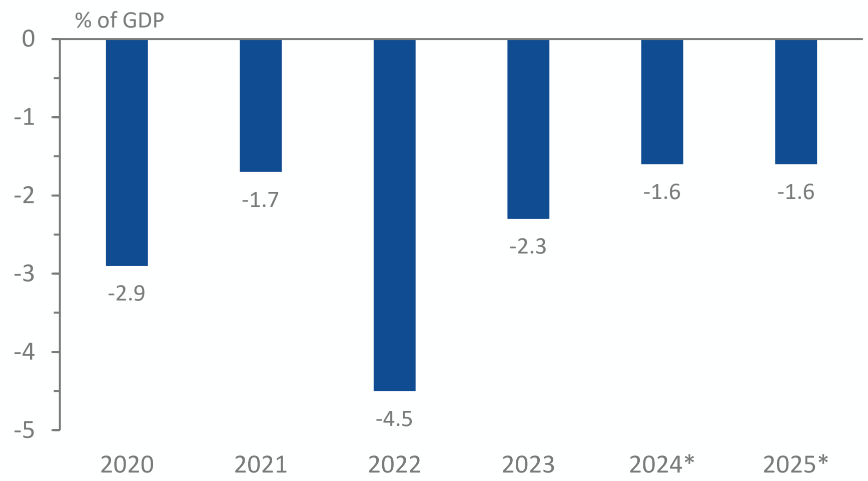
Current account

- 2022: high surplus led by price effects and re-routing of exports to non-sanctioned markets
- 2023: current account deficit, likely due to appreciation with respect to RUB, as RUS is the main export market; strong growth of imports from the EU and CHN

- **Weaker exchange rate vs. the US dollar while reserves stable due to technical default**
- **Current account turned into deficit in 2023, also due to appreciation of BYN against RUB**

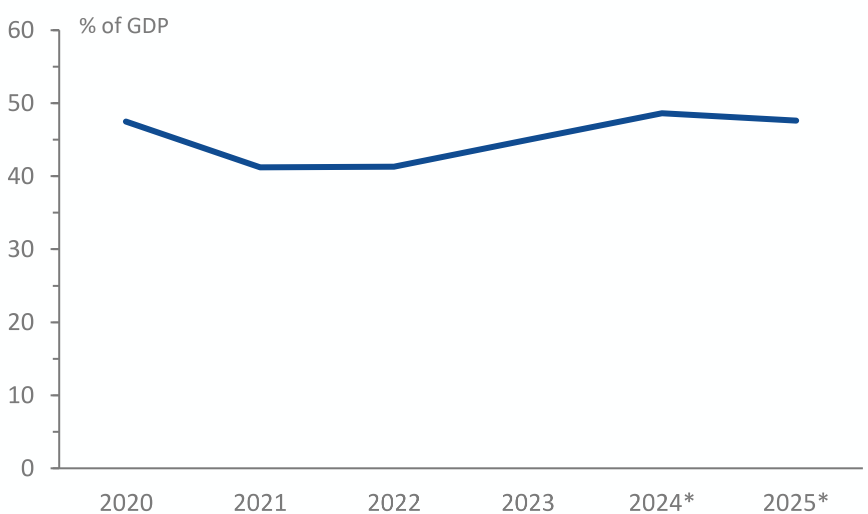
Public finances

Budget balance



*Source: IMF Fiscal Monitor, April 2024, *estimate/forecast*

Public debt



*Source: IMF Fiscal Monitor, April 2024, *estimate/foreast*

Budget balance

- 2023: deficit of -2.3% of GDP
  - Revenue decline due to sanctions, which target especially state-dominated sectors
  - Expansionary fiscal policy
- Forecast: -1.6% in both 2024 and 2025

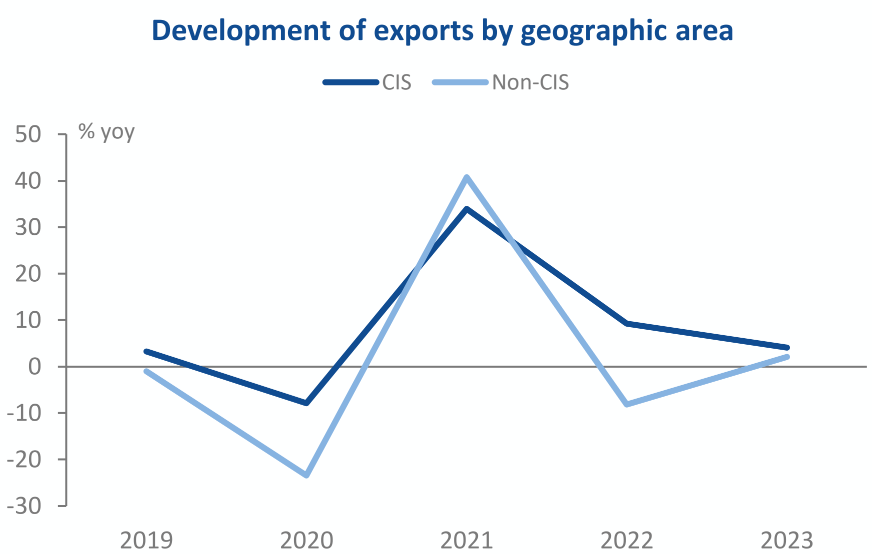
Public debt

- 2024: expected increase by 3.6 pp to 48.6
- Increase of public debt in 2024, as fiscal policy remains expansionary
- Technical default since Apr-23 as BLR is unable to service Eurobonds in USD
- Limited (re-)financing options, as international markets remain closed

- **Ongoing deterioration of public finances since 2020**
- **Limited access to fiscal data since mid-2022 hinders analysis**

External trade

Source: Belstat, Note: trade in goods



Source: Belstat

» Access to detailed trade data restricted by BLR authorities since mid-22

Exports

» 2022: decline in Western markets could not be compensated through growth in the Russian (and other CIS) market

» 2023: moderate growth in both CIS and non-CIS markets, but export volumes to non-CIS markets still 94% of the 2021 level

Imports

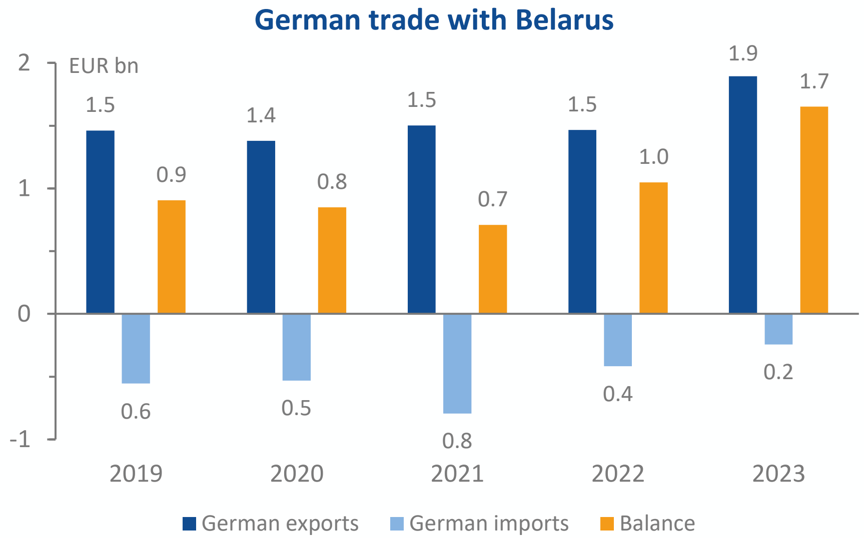
» 2023: increase due to imports from non-CIS countries (almost half of it from the EU) amid stable imports from CIS countries

» Main import item: transport vehicles
  - Re-exports to RUS likely

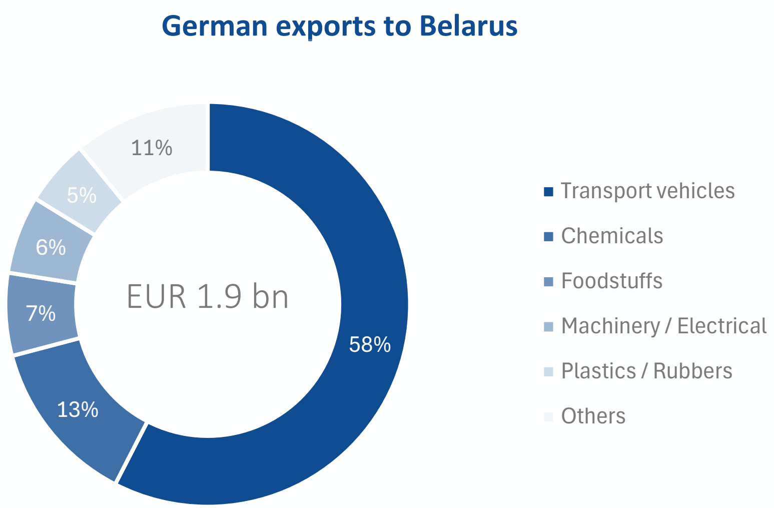
» Trade balance deficit of USD 2.4 bn (3.3% of GDP)

➢ **Increasing dependence of BLR on the RUS market (also via transit); trade deficit in 2023**

Bilateral trade between Belarus and Germany



Source: Destatis



Source: Destatis, data for 2023

German exports

» Growth of German exports to BLR driven by transport vehicles, mainly used vehicles (might point at re-exports, see next slides)

German imports

» 2023: continuous decline due to sanctions, barely EUR 0.2 bn in 2023 (vs EUR 0.8 bn in 2021)

Trade structure

» Exports: transport vehicles dominant, machinery strongly declined (sanctions), other categories roughly stable

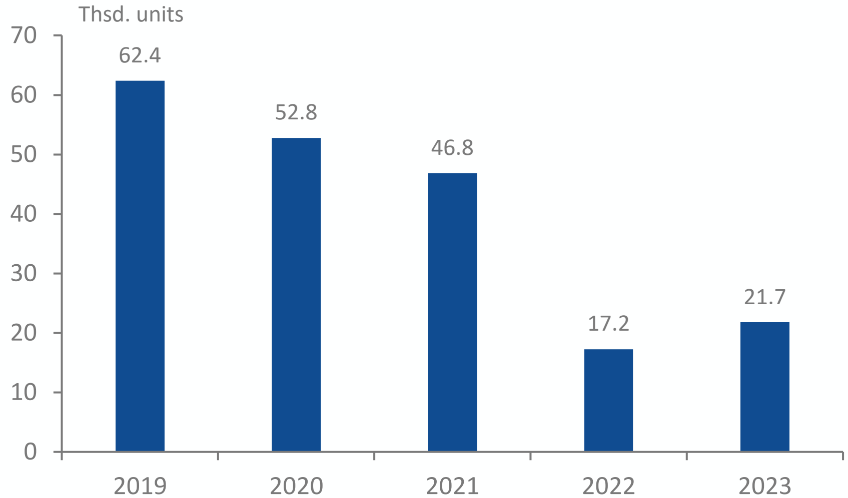
» Imports: main items include machinery, wood and wood products, and furniture

➢ **Severe decline of imports from BLR, but stable exports due to change in composition**

➢ **Strong increase in transport vehicle exports**

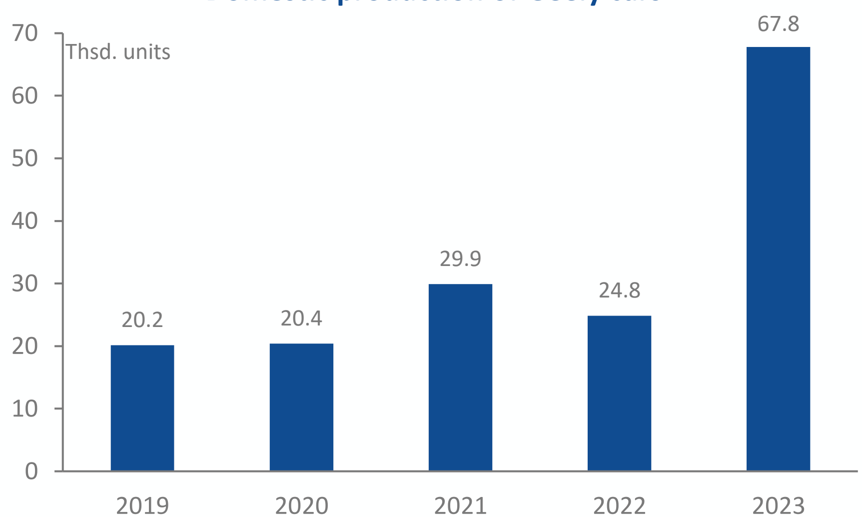
Developments in the Belarusian car market (1/2)

New car sales dynamics



Source: Belarus Automobile Association

Domestic production of Geely cars



Sources: Belstat, media

New car sales

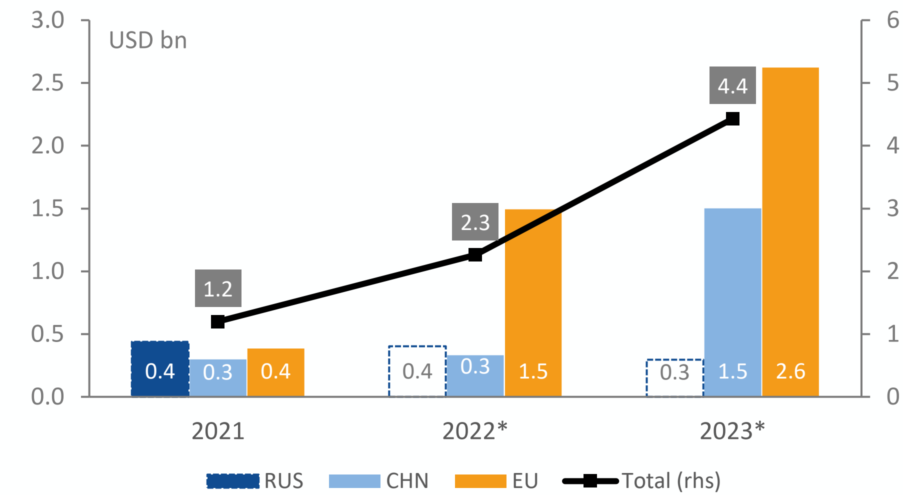
- Dramatic drop in 2022
  - Cars produced in RUS (RUS and Western brands) covered ca 80% of the BLR market
  - Western brands stopped production in RUS; supply chain problems due to sanctions
- Turnaround in 2023 but still half of 2021 level

Domestic production of Geely cars

- Domestic production of passenger cars concentrated in the “BelGee” plant (BLR-CHN joint venture)
- 2023: strong expansion of production
- Introduction of new car models as substitute for now absent Western brand cars
- Increase in sales on the domestic BLR market: 15.7 thsd. units sold in 2023
- Around 52 thsd. cars (77% of production) ex-ported to RUS
- **Market restructuring with Geely cars dominating**

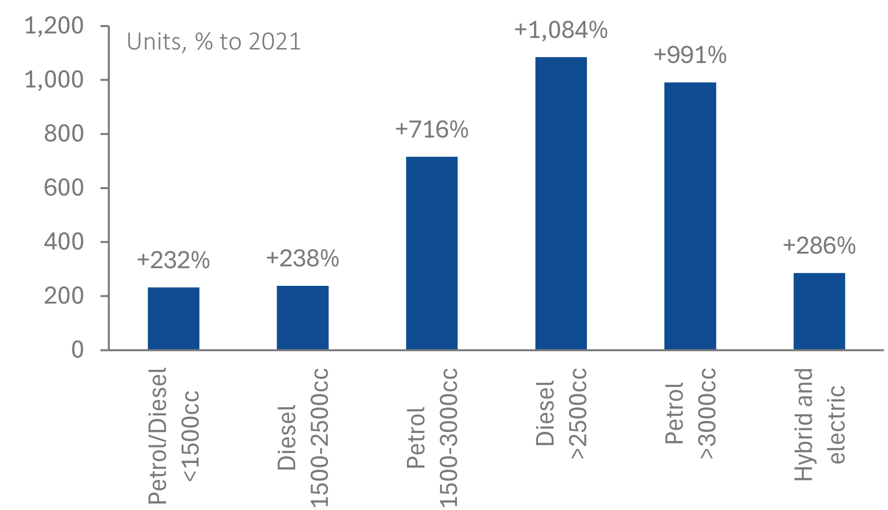
Developments in the Belarusian car market (2/2)

Car import dynamics



Sources: Comtrade, customs.gov.cn, autostat.ru. Note: values for RUS since 2022 are estimates.

Changes in car import structure from the EU (2023 vs 2021)



Source: Eurostat

Import dynamics

- » 2023: total import value four times higher than in 2021; increase in prices and volumes
- » Imports from the EU:
  - 80% used cars
  - DEU, LTU, and POL – main exporters
- » Imports from CHN: Chinese brands and Western brands produced in CHN

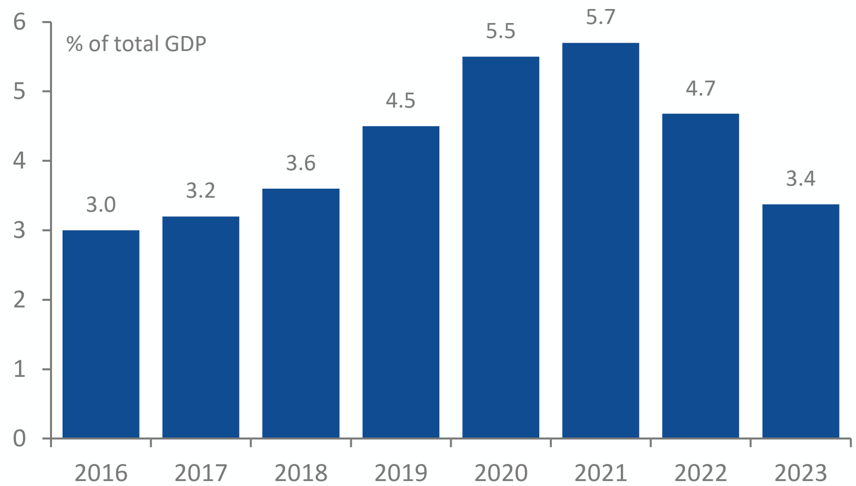
Car imports from the EU

- » Highest relative increase in imports in the luxury car segment
  - Import value EUR 1.4 bn (2/3 of the increase in total value)
- » Surging luxury car imports contradict the economic situation in BLR and domestic car market developments
- » Re-export to RUS possible, as trade in luxury cars with RUS is under EU sanctions

➢ **High increase in luxury car imports from the EU probably for further re-export to RUS**

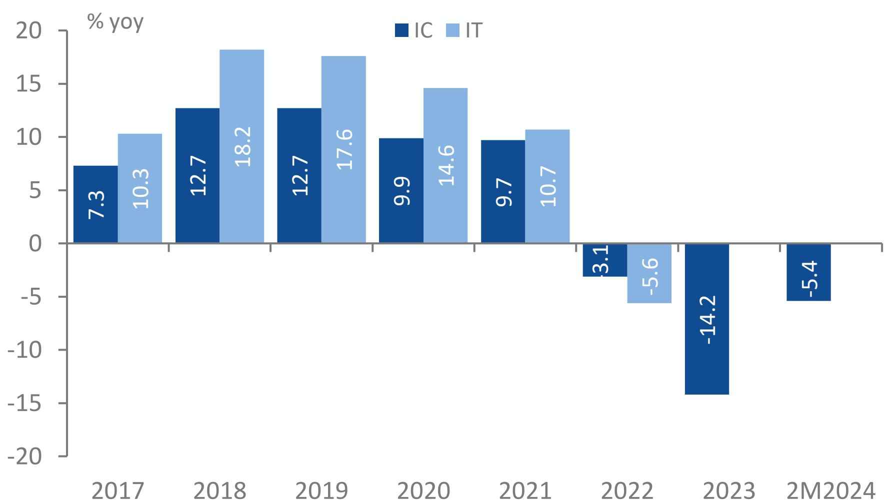
Developments in the IT industry (1/2)

Gross value added in IT industry



Source: Belstat. For 2023: own estimation based on available data and previous trends

Real gross value added in IT and IC



Source: Belstat

Sectoral definition

- IT industry: software development, computer programming, consulting, data processing, hosting and web portals
  - Accounts for more than 3/4 of the wider Information and Communications Technology (ICT) and the Information and Communications (IC) sector

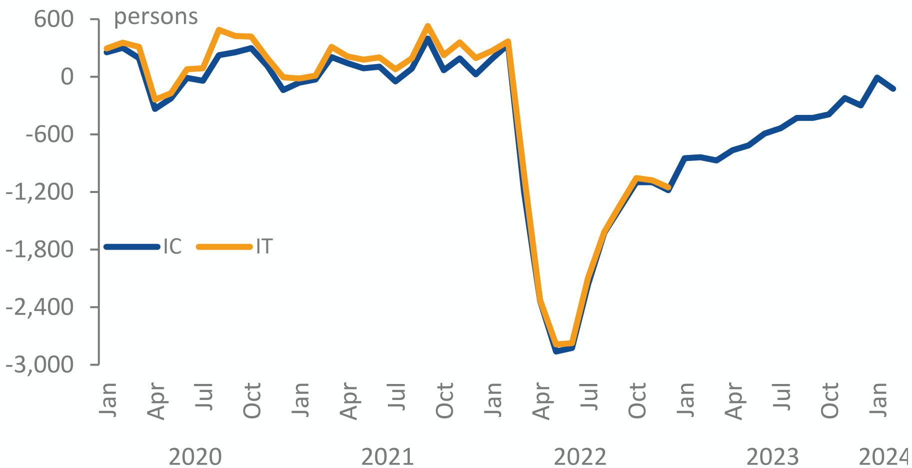
Contribution to GVA

- 2016-2021: real GVA in IT grew at a double-digit annual pace (over 14% on avg.)
- 2022-2023: real GVA in IT was developing much worse than the economy on average, dragging it down
  - 2022: IT: -5,6%; IC: -2.2%; GDP: -4.7%
  - 2023: IT: n/a; IC: -14.2%; GDP: 3.9%
- Feb-24: ongoing contraction of the IC GVA (-5.4% yoy in 2M2024), shaving -0.2 p.p. off GDP growth
  - Most likely, the IT industry fell even deeper

➢ **Ongoing deterioration; decline in the IT share of GDP to the level of 2018**

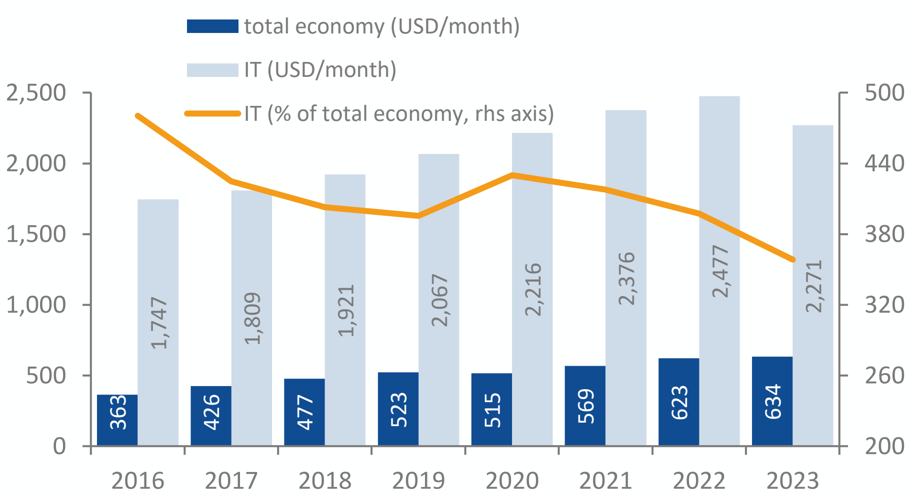
Developments in the IT industry (2/2)

Net inflow/outflow of employees in IT and IC



Source: Belstat. Note: for IT industry and IC section data is given for companies employing 16+ employees. Since 2023, Belstat has not published data for IT, hence, data for IC section is used instead as it captures changes in the IT industry well

Wages in IT and the economy



Sources: Belstat, NBRB. Note: annual wages for IT industry are approximated by average monthly wages in J62-63 subsectors

Outflow of IT professionals

- Outflow of IT specialists since Feb-22
- Mar-Dec 2022: small, medium and large IT companies* lost 17.2 thsd. employees (almost 20% of all employees in IT industry)
- Gradual improvement since Jun-22
- 2023: small, medium and large IC companies* lost 6.9 thsd. employees (i.e. about 10% yoy)
- Outflow almost stopped in recent months

Wages

- 2021-2023: wages in IT growing slower than average wage in the economy
- 2023: wages in IT were 3.6 times above the national average
  - Wages in IT in USD terms fell by -8.5% yoy

➢ **The number of IT employees should stabilise or even slightly increase in 2024 with the critical mass of IT professionals having already emigrated and IT remaining a well-paid sector for employment**

**Companies employing 16+ employees*

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.
**Advisory activities in Belarus are currently suspended.*

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