

## BELARUS: ECONOMIC SUMMARY

### KEY TENDENCIES

- Decline in economic activity under sanctions in Q1, with growth recovery in March
- Recovery of foreign trade volumes
- Depreciation of the national currency
- Inflation slowdown
- Growth of bank lending in national currency

### MAIN EVENTS

#### Belarus

On March 31, 2023, President of the Republic of Belarus Alexander Lukashenko appealed to the Belarusian nation and the National Assembly of the Republic of Belarus with his Annual Address.

In accordance with the Decree of the President of the Republic of Belarus dated December 21, 2017 No. 8 "On the development of the digital economy", Belarus has prolonged until January 1, 2025 granting of tax preferences applied to the mining, creation, acquisition and alienation of digital signs (tokens).

Decree of the President of the Republic of Belarus dated April 12, 2023 No. 102 creates conditions for the further development of the Hi-Tech Park.

The registration of the maximum wholesale producer prices for medicines has been resumed in accordance with the Decree of the President of the Republic of Belarus dated August 22, 2018 No. 345, which was suspended in April 2020.

Decree of the President of the Republic of Belarus No. 92 dated April 10, 2023 modifies the procedure for pricing in construction related to forming the estimated cost of construction projects with differentiated cost indices for various cost items.

From April 1, 2023, the National Bank of Belarus has reduced the refinancing rate from 11 to 10.5% per annum, the rates on constantly available and bilateral liquidity support operations - to 11.5% per annum, constantly available liquidity withdrawal operations - to 9.5% per annum.

The specifics of calculating the term for repatriation of foreign exchange earnings under contracts concerning export-import operations that were concluded before February 24, 2022 with residents of Ukraine have been established by the National Bank of Belarus for the period until December 31, 2023.

The National Bank of Belarus has postponed to January 1, 2024 the date from which banks are required to ensure feasibility of payments through the instant payment system for individuals.

Belarus has placed an issue of government bonds worth 10 billion Russian rubles on the financial market of the Russian Federation, with a maturity of three years and a coupon rate of 12.2% per annum.

JSC "Grodno Azot" is to attract 3.25 billion Russian rubles of credit from the Russian Export Center for the implementation of the investment project, part of the interest rate on the credit to be subsidized from the budget of the Russian Federation.

The international rating agency Fitch Ratings confirmed the credit rating of Belarus at 'RD' level.

The US has included Belarusian Automobile Plant and Minsk Automobile Plant in the sanctions list, Canada - the National Bank of Belarus and 8 Belarusian banks.

#### Development Bank of the Republic of Belarus (DBRB)

The Russian rating agency "Expert RA" assigned credit ratings to the DBRB at the level of "byAAA" on the national rating scale of Belarus and "ruA-" on the scale of the Russian Federation, the outlook on the ratings is "stable".

**REAL SECTOR AND EXTERNAL TRADE**

In 2023, the economic development of Belarus continues to be affected by geopolitical tensions in the region and unprecedented sanctions from the EU, the US and other unfriendly states. The Belarusian economy is on the way of adjustment to the new external conditions, which does not allow for a quick recovery of economic activity. GDP in 2022 decreased by 4.7%, in January-March 2023 - by 2.1% y/y (Figure 1). That being said, in March 2023 GDP grew by 0.8% y/y.

A positive contribution to economic growth is maintained by agriculture, which increased production in 2022 by 3.6%, in January-March 2023 - by 3% y/y.

The Belarusian industry is recovering after the imposition of sanctions, which include a ban of unfriendly states on the import and transportation of such important goods as oil products, fertilizers, wood and ferrous metallurgy products, automotive equipment, tires. At the early stage, it also created problems in providing production with certain imported raw products, materials and components. Driven by external demand, industrial production grew by 1.8% y/y in Q1 2023 after falling by 5.4% in 2022.

Belarusian transport companies have stopped traffic to Ukraine, they are prohibited to provide road haulage to the EU and to use the airspace of the EU, the US and a number of other countries for air transportation. Freight turnover in 2022 decreased by 25.4%, in January-March 2023 - by 32% y/y.

Information and communications, an industry whose share in GDP had been steadily growing until 2022, has lost its role as an economic growth driver in the result of the relocation of IT companies to neighboring countries and a decrease in the number of employees by almost 10% y/y.

Construction operates under conditions of reducing the expenses on construction and installation work. In general, investments in fixed assets in 2022 decreased by 19.1%, in January-March 2023 - by 2.8% y/y. Sanctions restrictions for attracting external financing and purchasing imported equipment led to a decline in investments in machinery, equipment and vehicles by 30% y/y in 2022, however, in January-March 2023 they increased by 0.5%.

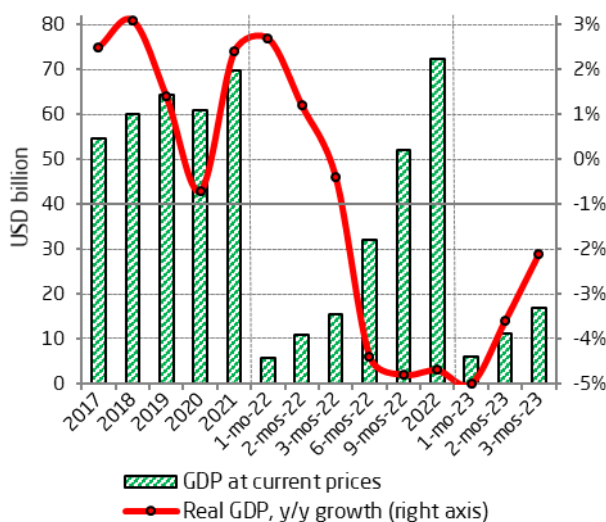
Due to a decline in real disposable income (by 3.6% in 2022 and by 1.1% y/y in January-February 2023), the population favors savings and investment model of consumer behavior and reduces spending, which restrains the growth of retail turnover and volume of paid services to the population.

Due to the closure of several markets and problems with logistics and settlements, exports of goods and services in 2022 decreased by 5.4%, including through termination of supplies of oil products to Ukraine and potash fertilizers - to the EU and the US. Exports of intermediate goods decreased by 14% y/y in 2022, however, there was an increase of exports of investment goods (by 20% y/y in 2022) and consumer goods (by 19%), primarily to the Russian Federation, which suffered from a shortage due to the close-down of a number of foreign companies on the Russian market.

Imports of goods and services in 2022 declined faster than exports, which ensured the growth of foreign trade surplus in 2022 to a record USD 4.3 billion, or 6% of GDP (Figure 2).

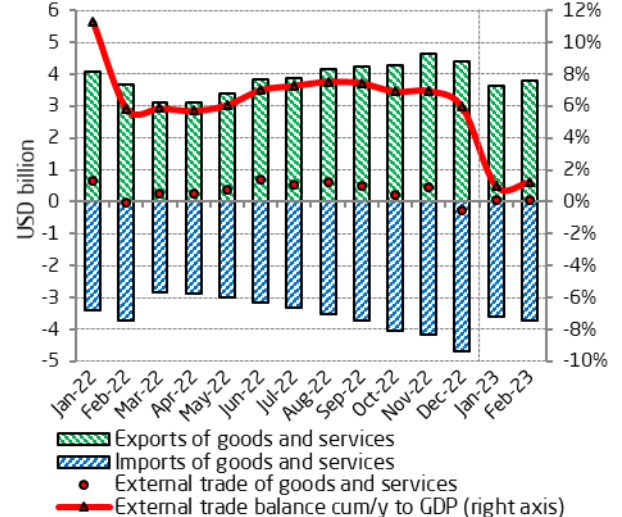
In 2023, foreign trade volumes continue to recover. Exports of goods and services in February increased by 3%, imports - by 0.4% y/y.

**Figure 1. GDP trends**



Источник: [www.belstat.gov.by](http://www.belstat.gov.by)

**Figure 2. Foreign trade**



Источник: [www.nbrb.by](http://www.nbrb.by), [www.belstat.gov.by](http://www.belstat.gov.by)

**BALANCE OF PAYMENTS AND EXTERNAL DEBT**

The growth of surplus of foreign trade in goods and services was the main factor in improving the balance of payments of Belarus. The current account balance increased from negative USD 0.2 billion in 2020 to a surplus of USD 2.2 and USD 2.7 billion respectively in 2021 and 2022, or to 3.1 and 3.7% of GDP (Figure 3).

In 2022, the volume of income reinvestment by foreign investors increased and provided about 70% of the total attraction of foreign direct investment to Belarus, which amounted to about USD 1.3 billion on a net basis annually since 2018. The surplus of current account and the influx of foreign direct investment allowed to finance the deficit that emerged in 2022 on other balance of payments items, preventing a significant decrease in reserve assets and ensuring the stability of the domestic foreign exchange market.

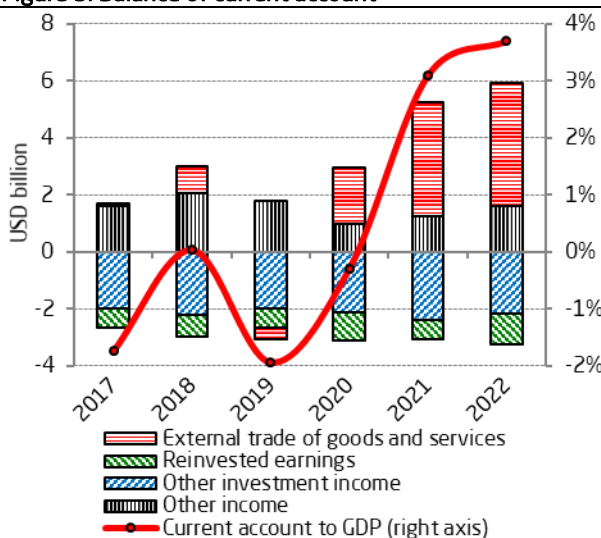
Unlike previous years, in 2022 accounts receivable on trade loans and advances increased significantly and accounts payable decreased, which reflects the transition of Belarusian enterprises mainly to the advance form of payments in foreign trade. Making settlements is impeded by sanctions against the banking system of Belarus, a number of state-owned banks are disconnected from the international financial information transfer system (SWIFT). Belarusian banks used the Russian financial information transmission system to conduct transactions with both Russian banks and banks of a number of other countries.

Gross external debt in 2022 decreased by 5.3% y/y to USD 39.7 billion (54.3% of GDP) as of January 1, 2023, of which public debt accounted for USD 18.5 billion, or 46.6 % to gross external debt and 25.3% to GDP (Figure 4).

Sanctions by unfriendly states against the financial sector of Belarus have narrowed feasibility of attracting external financing, including government borrowing in the global financial markets. The prohibition of operations with the assets of the National Bank of Belarus cut the possibility of making payments on external public debt. Obligations to international financial organizations and Eurobonds are redeemed in Belarusian rubles, as a result of which the international rating agencies Fitch Ratings and S&P Global Ratings have downgraded the credit ratings of Belarus to the "default" level. The Russian rating agency ACRA has confirmed the long-term credit rating of Belarus on the international scale at "B+" level, with a "developing" outlook.

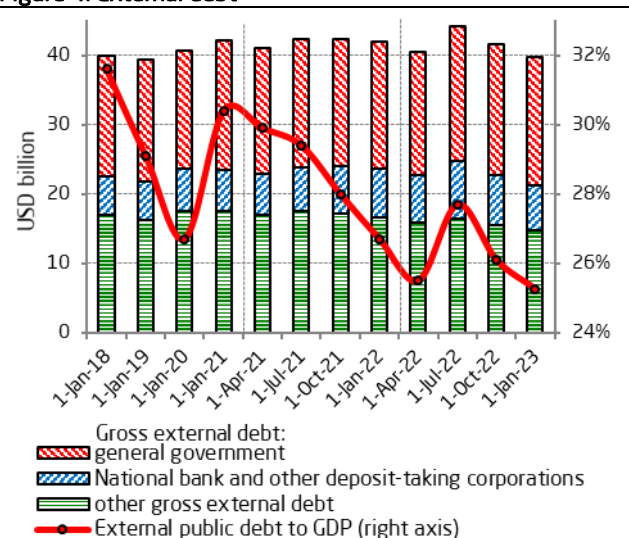
The execution of the republican budget in 2023 is planned with a deficit of 1.3% of GDP, and new external borrowings are intended to finance it. In April 2023, they placed one issue of government bonds in the amount of 10 billion Russian rubles, out of five issues for a total amount of 50 billion Russian rubles admitted in September 2022 to placement and public circulation on the Russian financial market. In 2023-2024, Belarus will receive funds from a Russian loan to finance promising import-substituting projects; an intergovernmental agreement on its provision in the amount of 105 billion Russian rubles was signed in November 2022.

**Figure 3. Balance of current account**



Источник: [www.nbrb.by](http://www.nbrb.by)

**Figure 4. External debt**



Источник: [www.nbrb.by](http://www.nbrb.by), [www.minfin.gov.by](http://www.minfin.gov.by)

**DOMESTIC CURRENCY MARKET**

The National Bank of Belarus follows the floating exchange rate policy, which allows for limited foreign exchange interventions in order to smooth out strong fluctuations in the exchange rate and to replenish gold and foreign exchange reserves. The official exchange rates of the Belarusian ruble against foreign currencies included in the basket are formed on the base of the results of trading on the Belarusian Currency and Stock Exchange. Considering changes in the foreign trade structure, along with the Russian ruble and the US dollar, the Chinese yuan has been included in the foreign currency basket since July 2022, and the euro has been excluded since December 2022.

In 2021, liberalization of foreign exchange regulations was completed, providing for lifting restrictions and simplifying the procedure for conducting foreign exchange transactions and executing foreign trade agreements. Among other changes, the compulsory sale of a part of foreign exchange earnings by enterprises have been canceled, Belarusian enterprises and individuals have got possibility to open current accounts in foreign banks and conduct foreign exchange transactions related to the movement of capital without permits from the National Bank of Belarus, legal requirements on timing and methods of completion of export-import operations were lifted.

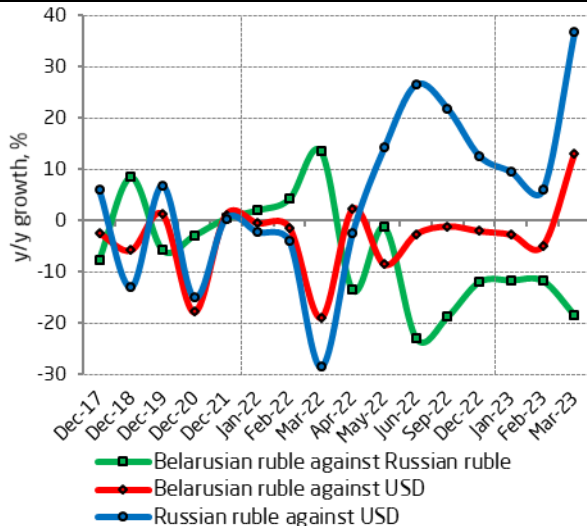
After strengthening in 2021, the Belarusian ruble weakens against the US dollar. In 2023 the depreciation of the national currency accelerated following the depreciation of the Russian ruble (Figure 5). At the same time, the Belarusian ruble slows down its rate of depreciation against the Russian ruble, which strengthened significantly in 2022 as a result of the currency and monetary regulation measures adopted in the Russian Federation, including the introduction of mandatory sales of a part of foreign exchange earnings by exporters and restrictions on the purchase and withdrawal abroad of foreign currency, as well as a record surplus of the balance of payments.

In March 2022, the National Bank used a part of gold and foreign exchange reserves to support the exchange rate of Belarusian ruble in response to increased demand for foreign currency, caused by an increase in devaluation expectations and by the weakening of the Belarusian ruble against the US dollar following the devaluation of the Russian ruble after the outbreak of hostilities in Ukraine and the tightening of sanctions against Belarus and the Russian Federation.

Afterward, the domestic foreign exchange market returned to a foreign currency surplus. Belarusian enterprises and banks buy more foreign exchange than they sell, and, unlike in 2021, almost all the volume of excess supply of foreign currency is formed by non-residents. Increased inflation and devaluation expectations determine the demand for foreign exchange from the population, which rises as the Belarusian ruble weakens and interest rates on the national currency deposits decrease.

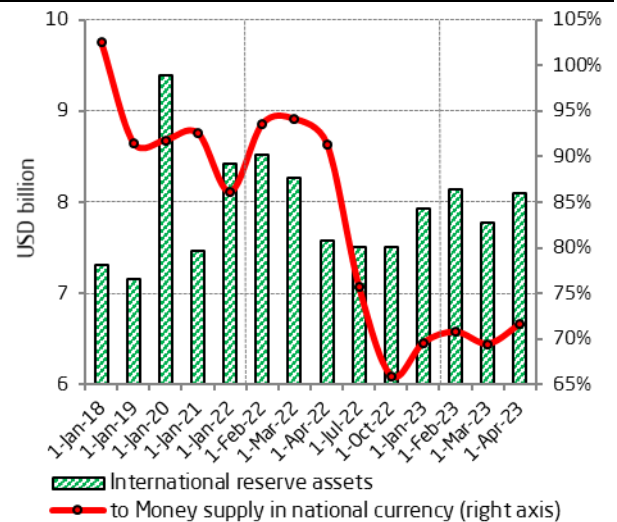
The Government and the National Bank of Belarus make payments on foreign currency bonds, including in February 2023 redemption of USD 800 million of Belarus Eurobonds, placed in 2017. However, part of external obligations is executed in Belarusian rubles, which, along with the purchase of excess foreign currency and its receipt in the budget, allows maintaining the level of gold and foreign exchange reserves. International reserve assets, which decreased by 6% over 2022, increased from the beginning of 2023 to USD 8.1 billion as of April 1, 2023 (Figure 6).

**Figure 5. Average exchange rate**



Источник: [www.nbrb.by](http://www.nbrb.by), [cbr.ru](http://cbr.ru)

**Figure 6. Foreign and gold reserves**



Источник: [www.nbrb.by](http://www.nbrb.by)

**MONETARY POLICY**

The National Bank of Belarus has been pursuing the monetary targeting policy, which allows to control the money supply in order to contain inflationary and devaluation processes. In 2021-2022, the refinancing rate was increased (from 7.75 to 12% per annum), as well as rates on constantly available and bilateral bank liquidity management operations. However, these operations have been suspended since August 2021. In March-April 2022, in response to volatility in the foreign exchange market and the resulting liquidity shortage, the National Bank of Belarus provided resources to banks at credit auctions. Subsequently, the banking system returned to a liquidity surplus, and since July 2022, weekly credit and deposit auctions have been suspended in order to stimulate the process of redistributing resources in the financial market.

The ongoing monetary policy was not able to fully limit inflation, the consumer price index rose by 10% y/y December in 2021 and by 12.8% y/y in December 2022. The acceleration of inflation was associated with the depreciation of the Belarusian ruble and the persistence of high inflation expectations, as well as the influence of external factors, which has been growing since 2020 and intensified in 2022. Among them, there are the growth of world prices for energy resources, raw materials and food, the increase in the costs of enterprises in a result of the adjustment of logistics and production chains, the acceleration of inflation in the Russian Federation.

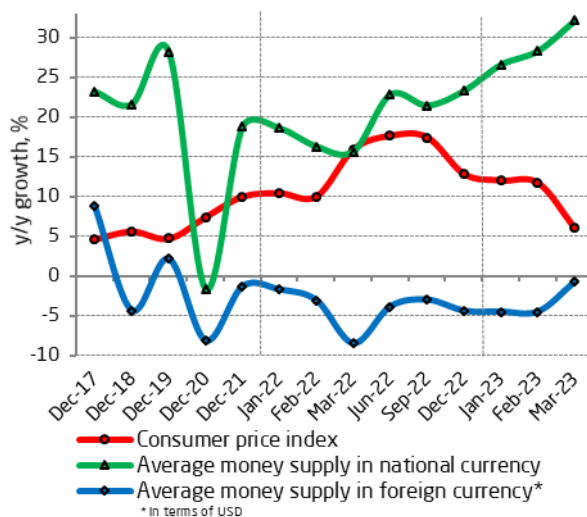
To curb inflation, state price regulation was expanded, including, from October 2022, the mandatory approval of growth of manufacturer prices by government bodies and the introduction of a cap for import, wholesale and retail trade markups on a wide range of consumer goods. Along with reduced consumer demand, a slowdown in the weakening of the Belarusian ruble and monetary policy measures, this contributed to a slowdown in consumer price growth, which in March 2023 amounted to 6% y/y against 15.9% in March 2022.

Due to the steady decline in inflation and improvement in inflation expectations, the National Bank of Belarus reduced the refinancing rate from 12% per annum at the beginning of 2023 to 11.5% per annum from January 23, 11% per annum from March 1 and 10.5% per annum from April 3, 2023.

The steady surplus of liquidity in the banking system contributes to the reduction of interest rates on deposits and loans by banks. The average interest rate for new term bank deposits of individuals was 8.35% p.a. in March 2023 against 15.76% p.a. March 2022, new bank loans to legal entities (excluding soft loans) - 9.21% p.a. against 19.06% p.a.

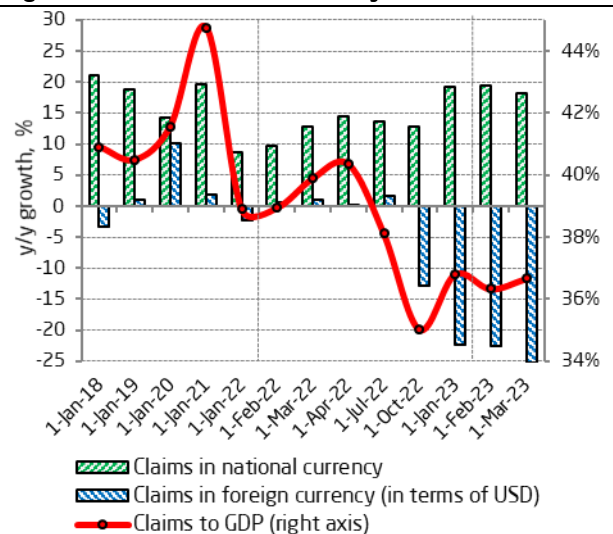
To increase the ability of banks to finance the economy, the National Bank of Belarus has taken a number of additional countercyclical measures aimed at easing prudential requirements for banks. Along with a decrease in the cost of lending, this contributes to growth of banks' claims on the economy in Belarusian rubles, which increased by 18.2% y/y as of March 1, 2023, while claims in foreign currency (in USD equivalent) decreased by 25.2 % y/y (Figure 8).

**Figure 7. Inflation and money supply**



Источник: [www.belstat.gov.by](http://www.belstat.gov.by), [www.nbrb.by](http://www.nbrb.by)

**Figure 8. Banks' claims on the economy**



Источник: [www.nbrb.by](http://www.nbrb.by)

## BELARUS INVESTMENT OPPORTUNITIES

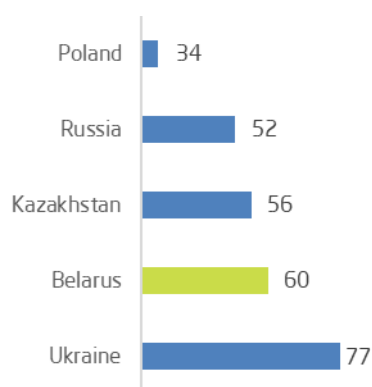


In 2022, the real sector of the Belarusian economy received USD 7 billion of foreign investments, including USD 6 billion of direct investments. The major volume is invested to industrial sector (34% of all foreign investments), trade (22%), transportation (16%), information and communication (11%), construction (7%), financial and insurance activities (5%). The main investors to Belarus were companies from Russian Federation (56% of all foreign investments), Cyprus (15%), the Netherland (4%), and Ukraine (3%).

As of January 1, 2023, the accumulated stock of foreign direct investment in the form of equity participation and equated investment to the economy of Belarus amounted to USD 13.3 billion (18.1% of GDP).

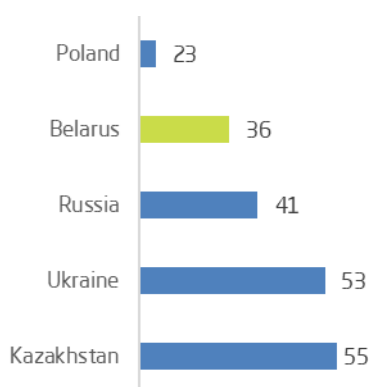
### Belarus in international rankings

2021 Human Development Index



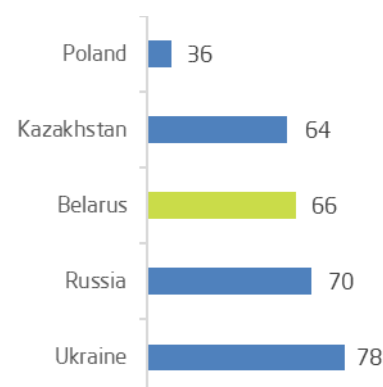
Source: [UNDP](#)

2020 Human Capital Index



Source: [World Bank](#)

2021 Legatum Prosperity Index



Source: [Legatum Institute](#)

#### ADVANTAGE POINTS

- ✓ Strategically advantageous geographical position. Belarus, located in the center of Europe, is on the optimal route, which connects, on the one hand, the countries of the European Union, on the other, the Eurasian Economic Union (EAEU), Central and East Asia. Belarus actively participates in China's "Belt and Road" initiative, which provides for the establishment of a transport corridor that will directly connect China with European countries.
- ✓ The common market of 5 EAEU countries (common customs territory, free movement of goods, services, capital, and labor), the free trade regime with the majority of Commonwealth of Independent States countries (CIS), free trade agreements of the EAEU with Vietnam, Iran, Serbia, and Singapore.
- ✓ Skilled labor. More than 90% of young people receive higher education, which is comparable to countries such as Finland and Australia and above Norway, Germany, and Japan.

#### PROTECTION OF FOREIGN INVESTMENT

- ✓ The legislation of Belarus guarantees equal rights for national and foreign investors, unimpeded repatriation and disposal of investment income, protection against gratuitous nationalization or requisition of investment objects.
- ✓ Belarus is a full member of the Multilateral Investment Guarantee Agency, and has also entered into about 60 bilateral agreements with other countries around the world to facilitate the implementation and mutual protection of investments.

#### INVESTMENT ASSISTANCE

- ✓ Belarus offers special legal (preferential) regimes in six [free economic zones](#) (located in Minsk and all regional centers), the [Great Stone Industrial Park](#), the [Hi-Tech Park](#), the [Southeast district](#) of the Mogilev region, the [Orsha district](#) of the Vitebsk region (including the special economic zone Bremino-Orsha), as well as in the [territory](#) of medium and small urban settlements and in rural areas.

- ✓ [Investment Agreement](#) with the Republic of Belarus allows to create favorable environment for investors regardless of the project area. The agreement allows the investors to establish additional guarantees for the protection of capital and to obtain preferential terms and conditions for the implementation of an investment project, including on individual terms.
- ✓ The [National Agency of Investments and Privatization](#) provides comprehensive assistance to foreign investors in the “one-stop-center” format, where it is possible to obtain information on the terms of doing business in Belarus and peculiarities of national legislation, to receive support during the negotiations and select perspective projects.

#### FOCUS INDUSTRIES AND SECTORS IN BELARUS

<b>Electronics and telecommunications</b> <b>Pharmaceuticals</b> <b>Fine chemistry</b> <b>Biotechnology</b> <b>Mechanical engineering</b> <b>New materials</b> <b>Logistics</b> <b>Electronic commerce</b> <b>Data storage and processing</b>	<p>To support these and other industries, the China-Belarus industrial park <a href="#">Great Stone</a> is created. The park is a special economic zone, located 25 kilometers from the capital of Belarus - the city of Minsk, with a special legal regime that provides comfortable business environment for companies with capital of any country of origin. About 100 companies with capitals from 15 countries are registered as residents of the park, with a total declared investment over USD 1.3 billion. In 2022, the industrial production in the park increased by more than 1.5 times, the export of goods - by 31% as compared to 2021.</p> <p>According to the Decree of the President of the Republic of Belarus of December 22, 2018 No.490, the park has become one of two free economic zones possible in Belarus, where the free customs zone procedure is applied in accordance with the Customs Code of the EAEU.</p>
<b>IT industry</b>	<p>In 2005, the <a href="#">Hi-Tech Park</a> was created, the special legal regime of which operates throughout the territory of Belarus. Over a thousand companies with a total number of 78 thousand employees are residents of the Hi-Tech Park, 40% of them were opened with foreign capitals, including from the USA, Great Britain, Israel, Germany, and Russia. There are 122 R&amp;D centers of foreign corporations in the Park. In 2021, the export of the residents achieved USD 3.2 billion.</p> <p>Since March 28, 2018, the Decree of the President of the Republic of Belarus No. 8 “On the Development of the Digital Economy” dated December 21, 2017, has been in effect. The Decree aims at further development of the High-Tech Park and in general the creation of a modern digital economy in Belarus.</p>
<b>Pharmaceuticals</b>	<p>The Belarusian pharmaceutical industry belongs to actively developing segments and is attractive for investors due to growing market of medical services, equipment and medicines in Belarus and other EAEU countries. To support producers, certain types of pharmaceutical products and medical equipment are exempted from value added tax.</p>
<b>Biotechnologies</b>	<p>The biotechnology industry in Belarus has a great scientific potential, including the development of the National Academy of Sciences of Belarus and higher education institutions in the field of genomic biotechnology, veterinary medicine, and agricultural biotechnology. The Scientific and Technological Park BelBiograd was established in 2016.</p>
<b>Wood processing</b>	<p>Forestry in Belarus fully meets the demand of woodworking industry for raw materials (most of the territory of the country is covered with forests), and the industry is in the lead on structural changes and technological innovations. Private investments are actively channeled into it.</p>
<b>Infrastructure</b>	<p>The National Infrastructure Plan of the Republic of Belarus for 2017-2030 estimates the long-term infrastructure needs of the country in the amount of USD 17.9 billion by 2020 and USD 50.5 billion in 2021 - 2030. Some projects are planned to be implemented on the principles of <a href="#">public-private partnership</a>.</p>
<b>Banking and Finance</b>	<p>According to international experts, the <a href="#">banking sector</a> of Belarus is one of the most promising in the CIS and Eastern Europe. Capitals from Germany, Russia, Austria, Ukraine, Great Britain, the Netherlands, Switzerland, Luxembourg, Kazakhstan, Latvia, Ireland, the USA, the Czech Republic and other countries participate in the authorized funds of Belarusian banks.</p>

## ABBREVIATIONS AND CONVENTIONS

<b>GDP</b>	gross domestic product
<b>p.a.</b>	per annum
<b>p.p.</b>	percentage point
<b>USD</b>	United States dollar
<b>y/y</b>	year to year (a period of the year to the corresponding period of the previous year)

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