

BELARUS: ECONOMIC SUMMARY

KEY TENDENCIES

- Decline in economic activity
- Growth of a surplus of foreign trade
- Depreciation of the national currency
- Inflation slowdown
- Growth of bank lending to entities in national currency

MAIN EVENTS

Belarus

The Law of the Republic of Belarus "On the Republican Budget for 2023" was adopted, which provides for the execution of the republican budget with a deficit of 1.3% of GDP.

Following the amendments to the Tax Code of the Republic of Belarus, in 2023 the income tax rate will increase from 18% to 20%.

On January 1, 2023, a new version of the Code of the Republic of Belarus on Land came into force, expanding the powers of local authorities to regulate land relations.

Persons from countries included in the list of foreign states that commit unfriendly actions against Belarusian legal entities and individuals (hereinafter referred to as unfriendly countries) can suffer forfeiture of assets located in Belarus, in the manner prescribed by the Law of the Republic of Belarus "On Seizure of Property".

Belarusian enterprises, the owners or shareholders of which are persons from unfriendly countries, can be transferred in 2023-2025 under temporary external administration in cases specified by the Law of the Republic of Belarus "On issues of transfer under temporary external management".

The import of certain goods in which objects of intellectual property are used, and the use of certain objects of intellectual property without the consent of their right holders from unfriendly countries are allowed in Belarus in 2023-2024, in accordance with the Law of the Republic of Belarus "On the restriction of exclusive rights to objects of intellectual property".

A new procedure for writing off exchange rate differences arising from January 1, 2020 to December 31, 2025 is determined for entities by Decree of the President of the Republic of Belarus No. 430 dated December 20, 2022.

The Board of the National Bank of Belarus has decided to reduce the refinancing rate from 12% to 11.5% per annum and rates on bank liquidity management operations, starting from January 23, 2023.

The Agreement from September 27, 2022, between the governments of Belarus and the Russian Federation on the recognition of technological operations carried out on the territory of the Union State, entered into force.

Since January 16, 2023, the Belarusian Currency and Stock Exchange has expanded the range of traded financial instruments to ensure settlements with countries that are trade partners of Belarus, including trading in Kazakhstani tenge in the "continuous order matching" mode and making transactions with a number of other currencies in the "negotiated transactions" mode.

Development Bank of the Republic of Belarus (DBRB)

The volume of financing the economy by the DBRB reached 6.4% of GDP as of 01.01.2023.

Belarusian banks "ASB Belarusbank", "Bank Dabrabyt", "Belagroprombank", "Belgazprombank", "Belinvestbank" and the leasing company "Micro Leasing" were named the best partners of the DBRB in the implementation of the program of financial support for small and medium-sized businesses in 2022, within the framework of which 1,250 projects were financed with a total value of about USD 180 million.

REAL SECTOR AND EXTERNAL TRADE

In 2022, the Belarusian economy faced strengthening of sanctions from the United States, the European Union (EU) and a number of other countries, the outbreak of hostilities in Ukraine that was the second trade and economic partner of Belarus after Russian Federation, and the introduction of large-scale sanctions against the Russian Federation. The need to adapt the economy to new operating conditions led to a halt in economic growth after it had resumed in 2021 following the global economic recovery after the COVID-19 pandemic. In 2022, Belarus' GDP decreased by 4.7% y/y in contrast to growth by 2.4% y/y in 2021 (Figure 1).

Industrial production declined by 5.4% y/y in 2022 (against growth of 6.5% y/y in 2021), which in turn reduced the volume of wholesale trade and freight traffic. The situation in transportation was aggravated by termination of transportation to Ukraine and the ban for Belarusian companies to carry out road transportation of goods to the EU countries from April 2022. Sector of the information and communication technology, which share in GDP has been steadily growing in previous years, has lost its role as a driver of economic growth in 2022.

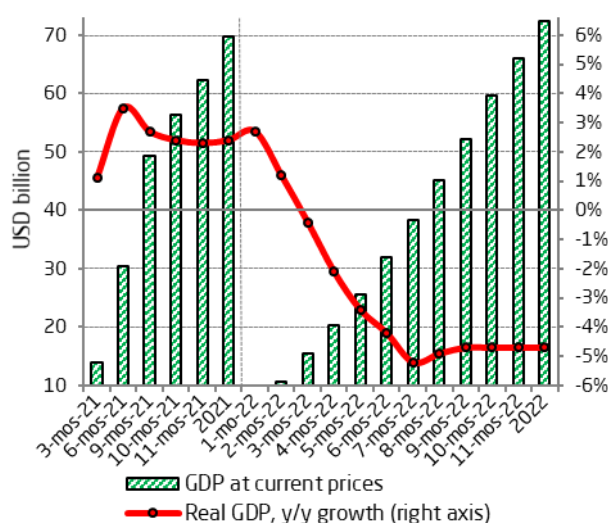
Agricultural production resumed growth and increased in 2022 by 3.6% y/y due to rise in the yield of main agricultural crops.

The decline in investment activity continued. Fixed capital investments decreased by 19% y/y in 2022 (in 2021 - by 5.5% y/y), including due to a 30% fall in the cost of purchasing machinery, equipment, vehicles.

Consumer demand was restrained by the decline in the disposable money income of the population in real terms, which amounted to 3.7% y/y in January-November 2022. Retail turnover declined by 3.7% y/y in 2022, the growth of paid services to the population slowed down in January-September to 1.5% y/y against 13.3% y/y in 2021.

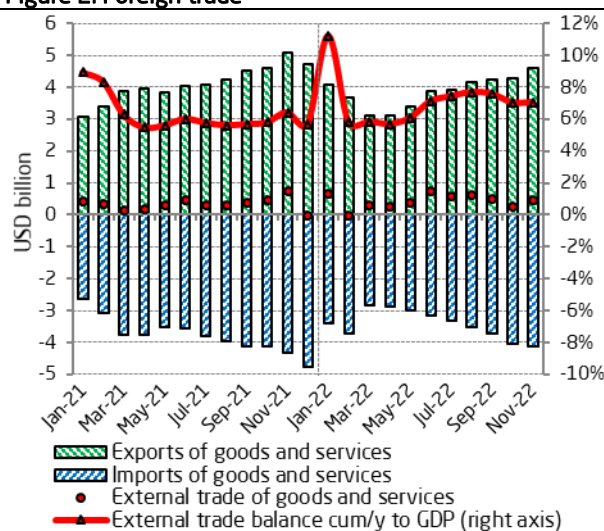
In 2021, high demand for Belarusian products and an improvement in the price environment in foreign markets contributed to high growth rates of the volume of export-import operations, and the surplus of foreign trade in goods and services increased to a record USD 4 billion (5.7% of GDP). However, since February 2022, the transit of Belarusian potash fertilizers through Lithuania, which was the main logistics hub in the export of these products, has been prohibited, and the outbreak of hostilities in Ukraine has deprived Belarus of one of the most important markets for oil products. From June 2022, the supply and transit of Belarusian woodworking products, cement, ferrous metals, and tires to the EU has been banned. Along with other sanction restrictions, this led to a decrease in Belarusian exports of goods and services in 2022 (by 5.1% y/y in January-November 2022). At the same time, imports of goods and services are declining faster than exports (by 7.3% y/y in January-November), which contributed to a growth of positive foreign trade balance - to USD 4.7 billion in January-November 2022, or 7.1% of GDP (Figure 2).

Figure 1. GDP trends



Источник: www.belstat.gov.by

Figure 2. Foreign trade



Источник: www.nbrb.by, www.belstat.gov.by

BALANCE OF PAYMENTS AND EXTERNAL DEBT

The surplus of foreign trade in goods and services of previous years became the main factor in improving the balance of payments of Belarus. The surplus of current account amounted to USD 2.2 billion or 3.2% of GDP in 2021 (Figure 3). In January-September of 2022, it amounted to USD 2.1 billion and almost doubled the figure for the same period 2021, despite of an increased outflow of investment income, about half of which was reinvested.

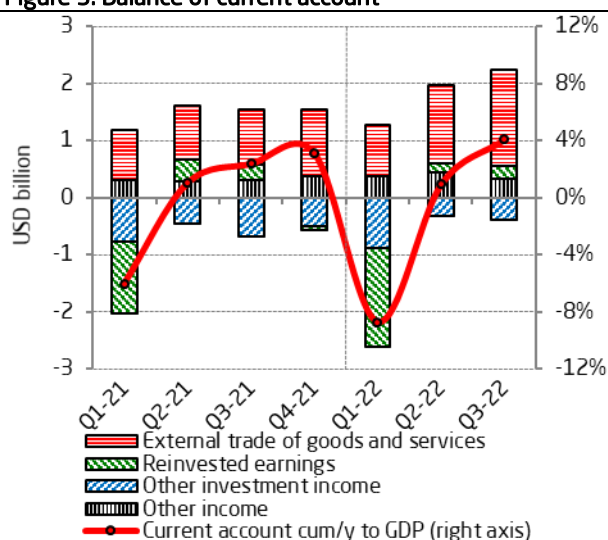
Gross external debt of Belarus, which decreased in 2021 (despite receiving USD 0.9 billion under the general allocation of special drawing rights of the International Monetary Fund), after growth in the second quarter of 2022 continued to decline and amounted to USD 41.5 billion (57.7% of GDP) as of October 1, 2022 (Figure 4). The general government (share in gross external debt - 45% as of October 1, 2022) and the banking system (17%) increased their external liabilities.

After decreasing in 2021, external public debt rose by 3.1% in January-September of 2022, to USD 18.8 billion, or 26.2% of GDP as of October 1, 2022 (Figure 4). In March 2022, the Governments of Belarus and the Russian Federation signed agreements to change the terms of all Russian government financial loans in the amount of USD 1.4 billion, including the rescheduling of payments from March 2022-April 2023 to 2028-2033 and the replacement of the floating rate with a fixed one in the amount of 12% per annum; in November - an agreement to provide Belarus with up to 105 billion Russian rubles of a state financial loan for the implementation of promising import-substituting projects.

The Ministry of Finance of Belarus keeps working on the placement of government bonds in external financial markets, which is planned in the amount of up to 50 billion Russian rubles until 2023. In September 2022, five issues of government bonds of Belarus were admitted to placement and public circulation on the financial market of the Russian Federation. New borrowings in other markets are hindered by the United States and EU sanctions, which, among other things, made it impossible for the National Bank of Belarus to make settlements in US dollars and euros and led to the refusal of paying agents to service Belarusian Eurobonds. Under these conditions, the Ministry of Finance of Belarus fulfilled its external obligations in Belarusian rubles, as a result of which the international rating agencies Fitch Ratings and S&P Global Ratings downgraded the credit ratings of Belarus and its Eurobond issues.

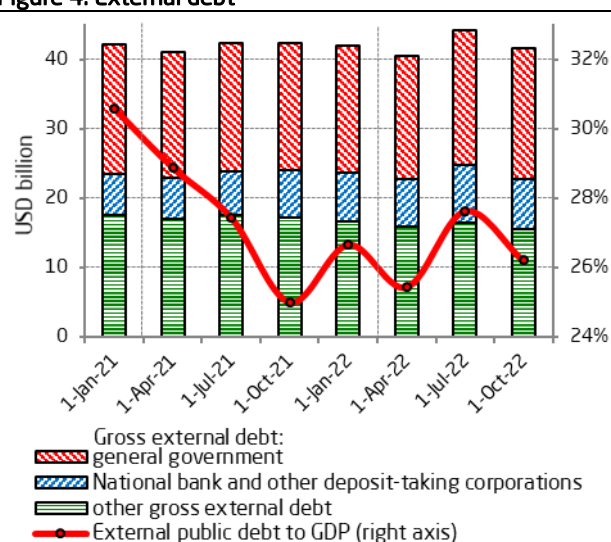
Due to the limited options for refinancing the external public debt, reimbursement of public debt, same as in 2021, is paid off at the expense of accumulated foreign exchange funds and earnings of the republican budget, the deficit of which is planned in the amount of 1.5% of GDP in 2022 against 0.3% of GDP in 2021. The growth of the republican budget deficit, which for 11 months of 2022 amounted to about 1% of GDP, was associated with both an increase in spending and a decrease in budget revenues from the export of potash fertilizers and oil products.

Figure 3. Balance of current account



Источник: www.nbrb.by

Figure 4. External debt



Источник: www.nbrb.by, www.minfin.gov.by

DOMESTIC CURRENCY MARKET

The National Bank of Belarus continues to pursue 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 (US dollar, Russian ruble, from June 2022 Chinese yuan is included and from December 2022 euro is excluded) have been formed based on the results of trading on the Belarusian Currency and Stock Exchange.

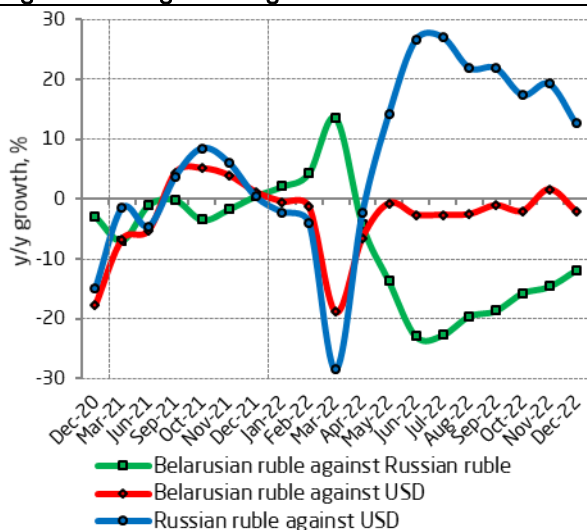
In 2021, amendments to the legislation on foreign exchange regulation came into force, which completed the process of liberalization of foreign exchange regulations, providing for lifting restrictions and simplifying the procedure for conducting foreign exchange transactions and executing foreign trade agreements. Belarusian enterprises and individuals have no need to obtain permits from the National Bank of Belarus to open current accounts in foreign banks and conduct foreign exchange transactions related to the movement of capital. The compulsory sale of a part of foreign exchange earnings by enterprises have been canceled, as well as the requirements on timing and methods of completion of export-import operations.

The domestic foreign exchange market of Belarus returned to a foreign currency surplus after a surge in demand for it in March of 2022, 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 amid the outbreak of hostilities in Ukraine and the tightening of sanctions against Belarus and the Russian Federation. However, in 2022, Belarusian entities and banks bought more foreign exchange than they sold, and, unlike the previous year, almost the entire volume of the excess supply of foreign currency was formed by non-residents.

In 2022, Belarusian ruble was weakening against the Russian ruble, which strengthened in the result of the currency and monetary regulation measures taken in the Russian Federation, including the introduction of mandatory sales by exporters of a part of foreign exchange earnings and restrictions on the purchase and withdrawal of foreign currency abroad, and afterward a record surplus of the balance of payments. In December 2022, the weighted average exchange rate of the Belarusian ruble against the Russian ruble decreased by 11.9% y/y, against the US dollar - by 2% y/y (Figure 5).

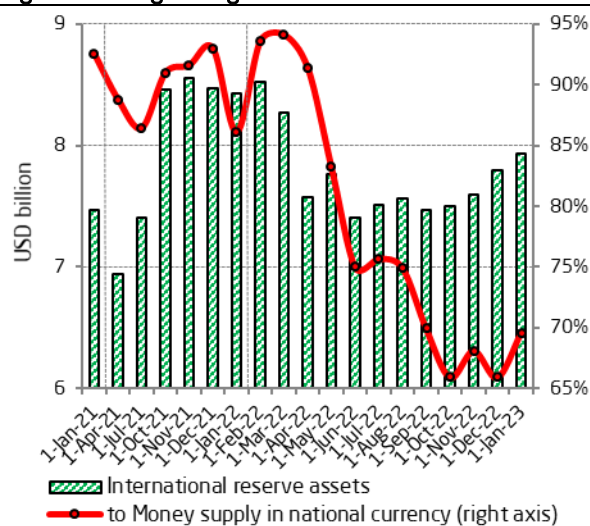
In 2022, in response to increased demand for foreign currency, the National Bank used a part of gold and foreign exchange reserves to support the exchange rate of Belarusian ruble. Also, the government and the National Bank of Belarus allocated more than USD 1 billion to pay off their obligations in foreign currency. At the same time, part of external obligations was executed in Belarusian rubles, which, along with the purchase of excess foreign currency and its receipt in the budget, allowed maintaining the level of gold and foreign exchange reserves. As a result, international reserve assets decreased by 6% from the beginning of 2022 and amounted to USD 7.9 billion as of January 1, 2023 (Figure 6).

Figure 5. Average exchange rate



Источник: www.nbrb.by, cbr.ru

Figure 6. Foreign and gold reserves



Источник: www.nbrb.by

MONETARY POLICY

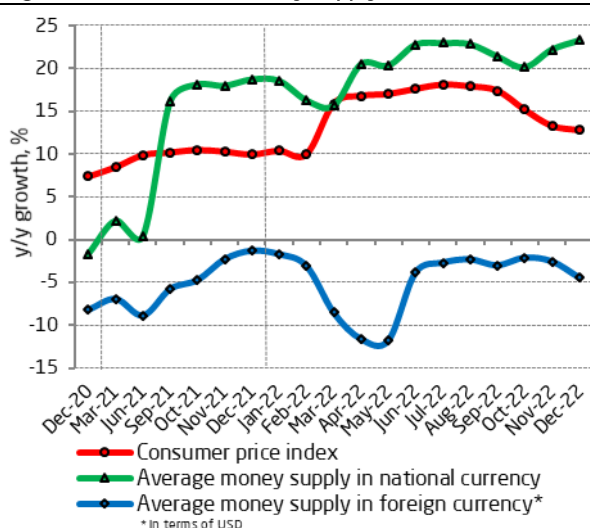
The National Bank of Belarus has been pursuing the monetary targeting policy, which, in 2017-2019, along with the stability of the national currency exchange rate, allowed to halve the inflation rate as compared to previous years. In subsequent years, inflation in Belarus accelerated, in December 2022 the growth in the consumer price index amounted to 12.8% y/y against 10% in December 2021 (Figure 7). This was due to the depreciation of the national currency, growth of world prices for raw materials and food, an increase in the costs of enterprises as a result of the adjustment of logistics and production chains, which contribute to maintaining high inflationary expectations. To curb inflation, state price regulation was expanded, including, from October 2022, the mandatory approval of manufacturer price growth and the introduction of a cap for trade markups on a wide range of consumer goods. Along with reduced demand, this contributed to a slowdown in consumer price growth, which reached 17-18% y/y in March-September 2022.

In order to restraint devaluation and inflationary processes, the National Bank of Belarus raised the refinancing rate to 12% p.a. from March 1, 2022 and continued to control the money supply by targeting monetary aggregates. Since August 2020, the constantly available and bilateral operations have not been carried out, therefore, in the first half of 2022, weekly loan and deposit auctions were held to regulate the liquidity of banks. In March-April 2022, in response to volatility in the foreign exchange market and a liquidity shortage, the National Bank of Belarus provided resources to banks at weekly credit auctions. Later on, the banking system returned to a liquidity surplus, and since July weekly credit and deposit auctions have been suspended.

The liquidity surplus of banks helped reduce the cost of resources in Belarusian rubles to a level below the refinancing rate and inflation. The average interest rate for new term bank deposits of individuals was 9.91% p.a. in December 2022 against 14.92% p.a. December 2021, new bank loans to legal entities (excluding soft loans) – 10.2% p.a. against 13.92% p.a.

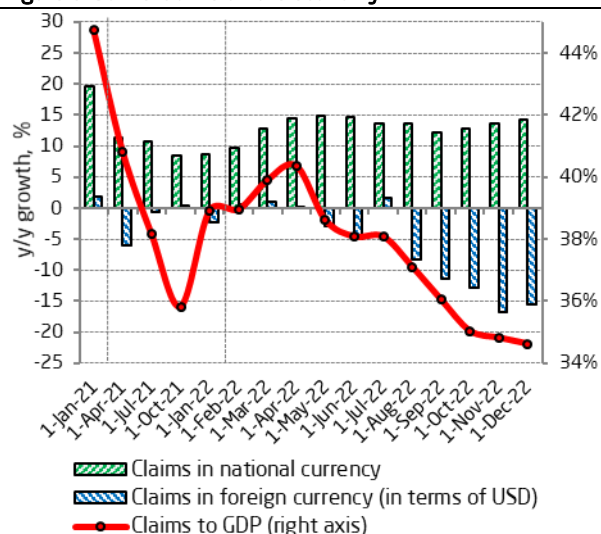
The National Bank of Belarus in 2022 has taken a number of measures to increase the stability of banks and maintain their ability to finance the economy. The rate of deductions to the mandatory reserves from raised funds in foreign currency was lowered; prudential requirements to regulatory capital adequacy, debt classification and the formation of special reserves were softened; the ability to extend repayment terms and provide new loans were expanded without compromising the quality of the borrower’s assessment. As of December 1, 2022, banks’ claims on the economy in Belarusian rubles increased by 14.3% y/y, in foreign currency (in USD equivalent) – decreased by 15.5% y/y (Figure 8).

Figure 7. Inflation and money supply



Источник: www.belstat.gov.by, www.nbrb.by

Figure 8. Banks’ claims on the economy



Источник: www.nbrb.by

BELARUS INVESTMENT OPPORTUNITIES

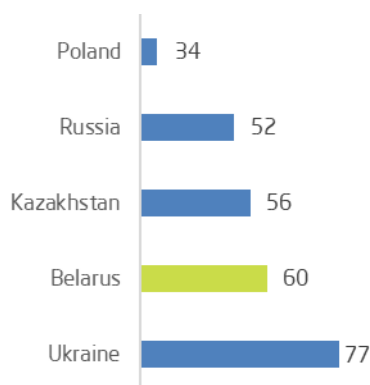


In January-September of 2022, the real sector of the Belarusian economy received USD 5.3 billion of foreign investments, including USD 4.6 billion of direct investments. The major volume is invested to industrial sector (34% of all foreign investments), trade (22%), transportation (16%), information and communication (11%), construction (7%), financial and insurance activities (5%). The main investors to Belarus were companies from Russian Federation (50% of all foreign investments), Cyprus (18%), the Netherland (5%), and Ukraine (4%).

As of October 1, 2022, the accumulated stock of foreign direct investment in the form of equity participation and equated investment to the economy of Belarus amounted to USD 14 billion (19.5% of GDP).

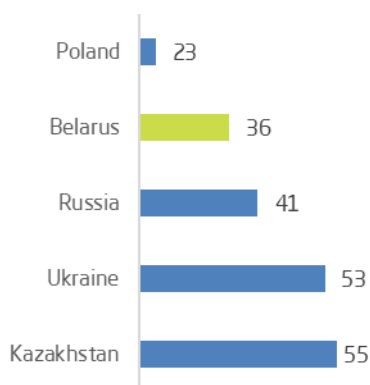
Belarus in international rankings

2021 Human Development Index



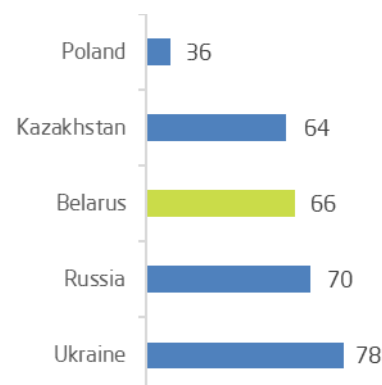
Source: [UNDP](#)

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

Electronics and telecommunications Pharmaceuticals Fine chemistry Biotechnology Mechanical engineering New materials Logistics Electronic commerce Data storage and processing	<p>To support these and other industries, the China-Belarus industrial park Great Stone 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 1.25 billion. In 2021, the industrial production in the park more than doubled, the export of goods increased by 15% as compared to 2020.</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>
IT industry	<p>In 2005, the Hi-Tech Park 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&D centers of foreign corporations in the Park. In 2021, the export of the residents increased by 19% y/y and 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>
Pharmaceuticals	<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>
Biotechnologies	<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>
Wood processing	<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>
Infrastructure	<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 public-private partnership.</p>
Banking and Finance	<p>According to international experts, the banking sector 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

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

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