

BELARUS: ECONOMIC SUMMARY

KEY TENDENCIES

- Recovery of economic activity
- Growth of foreign trade volumes
- Depreciation of the national currency
- Reduced inflation rate
- Growth of bank lending in national currency

MAIN EVENTS

Belarus

Additional requirements for the issue and state registration of issues of housing bonds are established from October 1, 2023 by the new version of the Decree of the President of the Republic of Belarus No. 176 dated May 4, 2021.

The amendments were made to the Resolution of the Council of Ministers of Belarus No. 713 dated October 19, 2022 "On the system of price regulation", aimed at leveling the conditions for the sale of Belarusian and imported goods on the domestic market.

The procedure for the formation, determination and maintenance of lists of goods (groups of goods) that are essential for the domestic market is determined by the Resolution of the Council of Ministers of Belarus No. 365 dated 03.06.2023 in accordance with the Law of the Republic of Belarus "On the restriction of exclusive rights to intellectual property".

The list of companies whose participants from foreign countries that commit unfriendly actions against Belarusian legal entities and individuals are prohibited from alienating their stakes (shares) in the authorized capital of these companies, has been reduced to 1795 positions, approved by Resolution of the Council of Ministers of Belarus No. 436 dated July 1, 2022.

The list of 33 organizations with the participation of the state, which are required to prepare financial statements in accordance with International Financial Reporting Standards from January 1, 2025, is determined by Resolution of the Council of Ministers of Belarus No. 351 dated May 31, 2023.

The National Bank of Belarus has reduced the refinancing rate to 9.75% per annum from May 31 and 9.5% per annum from June 28, 2023, as well as the rates on standing facilities and bilateral liquidity support operations - to 10.5% per annum, standing facilities on withdrawal liquidity operations - to 8.5% per annum.

The next payment of interest income on Eurobonds Belarus-2027 was made in Belarusian rubles in accordance with the Resolution of the Council of Ministers and the National Bank of Belarus No. 212/10 dated April 6, 2022 "On temporary measures to fulfill external government debt obligations".

The Eurasian Development Bank and the public-private partnership centers of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed a memorandum on joint planning of cross-border projects.

Development Bank of the Republic of Belarus (DBRB)

The limit of bank guarantees issued by the DBRB for the purpose of supporting small and medium-sized enterprises engaged in the export of products is established by the Resolution of the Council of Ministers and the National Bank of Belarus No. 352/10 dated May 31, 2023.

The solemn opening of the southwestern bypass of the city of Mogilev - the M15 highway more than 12 kilometers long, which the DBRB co-financed, took place on June 28, 2023.

The international rating agency Fitch Ratings lowered the long-term foreign currency rating of the DBRB to «RD».

REAL SECTOR AND EXTERNAL TRADE

In 2023, geopolitical tensions in the region and unprecedented sanctions by the EU, the USA and other unfriendly states continue to influence the economic development of Belarus. However, the adaptation of the Belarusian economy to the changed external operating conditions contributes to the recovery of economic activity. Since March 2023, there has been a positive annual GDP growth rate, with GDP growing by 0.9% y/y over the five months of 2023, compared with a 4.7% decline in 2022 (Figure 1).

The positive contribution to economic growth is provided by agriculture, where production continues to grow and in January-May 2023 increased by 5.4% y/y, and industry, where the recovery of output is stimulated by external demand and in January-May 2023 output rose by 4.1% y/y in May 2023 after a 5.4% decline in 2022. At the same time, the Belarusian industry continues to work under the conditions of banning unfriendly States on the import and transit of such basic goods as oil products, fertilizers, wood and steel products, automobile tractors, tyres.

Belarusian transport companies do not carry out transportation in the direction of Ukraine, they are prohibited to carry out road transportation of goods to the EU countries and to use the airspace of the EU, the USA and a number of other countries for air transportation. As a result, freight turnover continues to decrease, in 2022 it decreased by 25%, in January-May 2023 - by 27.4% y/y.

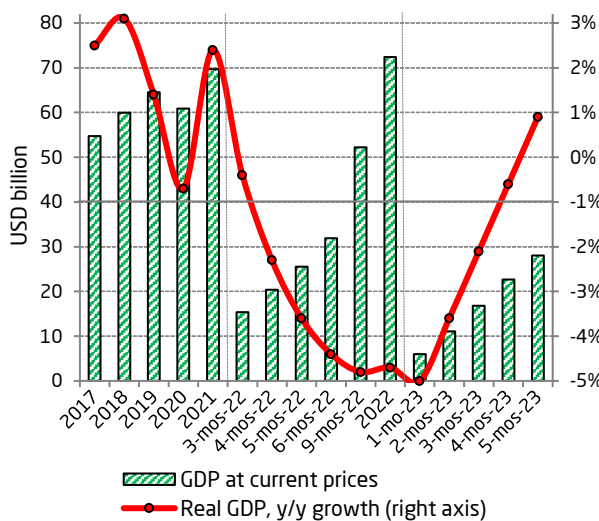
Construction operates under conditions of reduced construction and installation costs, but in general, investment in fixed assets is recovering and in January-May 2023 increased by 2.5% y/y, compared to a decrease of 19.1% in 2022. Investment in machinery, equipment and vehicles is growing rapidly, increasing by 9.1% y/y in January-May 2023 compared to a 30% y/y decline in 2022, caused by restrictions on external funding and imports of equipment.

The recovery of real disposable incomes, which grew by 1.6% y/y in January-April 2023 (after a 3.6% decline in 2022), contributes to the growth of retail trade (in January-May - by 2.9% y/y) and the volume of paid services to the population (in January-March - by 5.5%).

Due to the closure of several markets, including termination of supplies of oil products to Ukraine and potash fertilizers - to the EU and the US, and problems with logistics and settlements, exports of goods and services decreased by 5.4% in 2022. At the same time, imports of goods and services fell faster than exports, which ensured the growth of foreign trade surplus to USD 4.3 billion in 2022, or 6% of GDP (Figure 2).

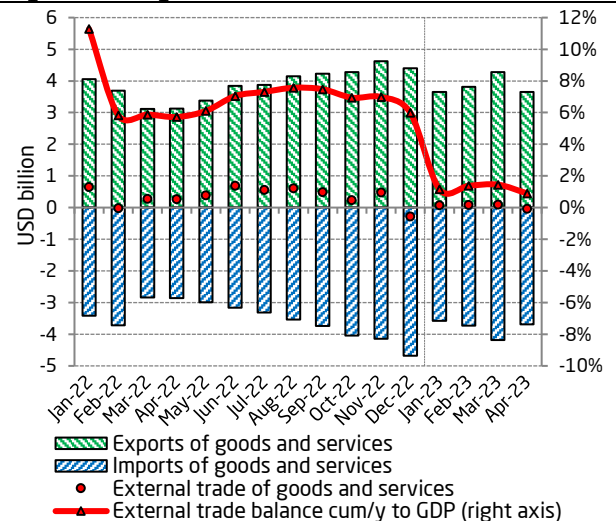
In 2023, the volume of foreign trade is growing at a high rate due to both the low base of the previous year and an increase in the supply of goods to Russia of more than 1.5 times. In January-April 2023, exports of goods and services grew by 9.9%, imports - by 18.4% y/y, the foreign trade balance remained positive, but declined to USD 200 million against more than USD 1 billion in January-April 2022.

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 foreign trade surplus in goods and services was a major factor in the improvement in the balance of payments of Belarus in 2021-2022, when the current account surplus exceeded 3 % of GDP. In the first quarter of 2023, the current account deficit was formed by investment revenues, most of which are reinvested by foreign investors, and rose to USD 1.7 billion (10.2% of GDP) against USD 1.3 billion (8.6%) in the first quarter of 2022 (Figure 3).

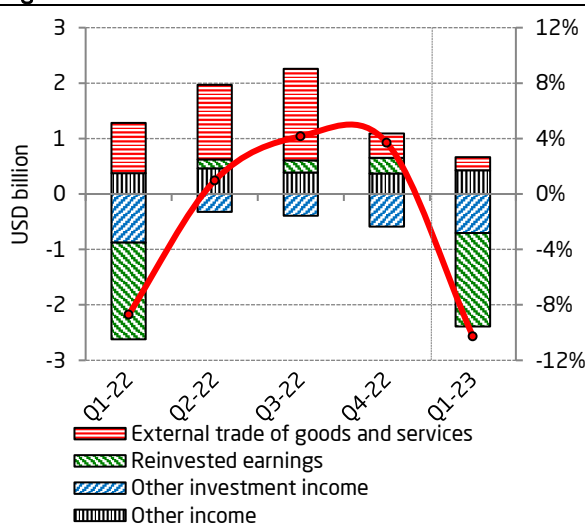
The current account deficit has traditionally been financed by foreign direct investment, the bulk of which is reinvested earnings (about 70 % in 2022). The use of reserve assets to finance the balance of payments decreased by more than 5 times in the first quarter of 2023 compared to the first quarter of 2022. This is due, among other things, to a reduction in trade credit receivables and an increase in trade credit and advance accounts payable, reflecting an improvement in foreign trade settlements compared to 2022, when Belarusian enterprises had to use mainly advance payments. International payments continue to be complicated by sanctions on the banking system in Belarus, and a number of Belarusian banks have been disconnected from the international financial information system (SWIFT) and use the Russian financial information system to conduct transactions with both Russian banks and banks in a number of other countries.

Gross external debt continued to decline in 2023, - by 5.3% since the beginning of the year and amounted to USD 37.6 billion (50.5% of GDP) as of April 1, 2023, of which government debt accounted for USD 17.5 billion, or 46.4% of gross external debt and 23.4% of 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 obligations 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 assigned Belarus a long-term credit rating on the international scale at "B+" level, with a "developing" outlook.

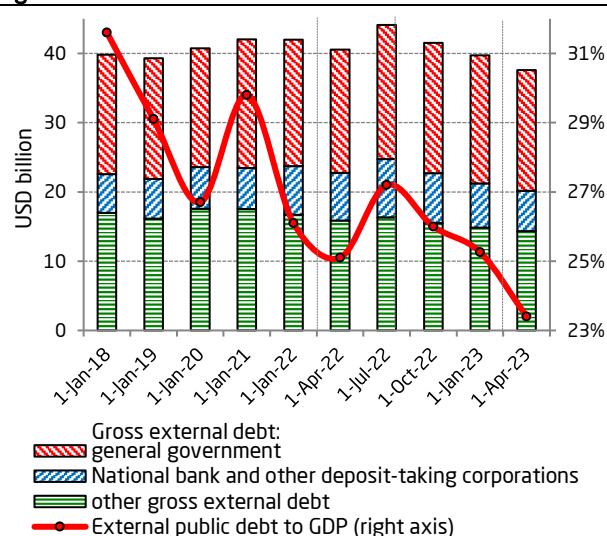
The execution of the republican budget in 2023 is planned with a deficit of 1.3% of GDP, and new external borrowings are intended to finance it. In April 2023, they placed one issue of government bonds in the amount of 10 billion Russian rubles, out of five issues for a total amount of 50 billion Russian 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

Figure 4. External debt



Источник: www.nbrb.by, 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.

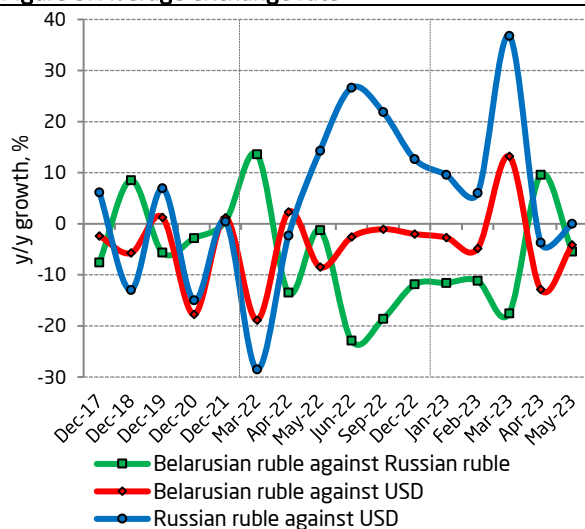
After strengthening in 2021, the Belarusian ruble is weakening against the US dollar. In 2023 the depreciation of the national currency accelerated following the depreciation of the Russian ruble (Figure 5). At the same time, the Belarusian ruble slows down its rate of depreciation against the Russian 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. Despite the recovery of real disposable money incomes of the population, individuals remain net sellers of foreign currency.

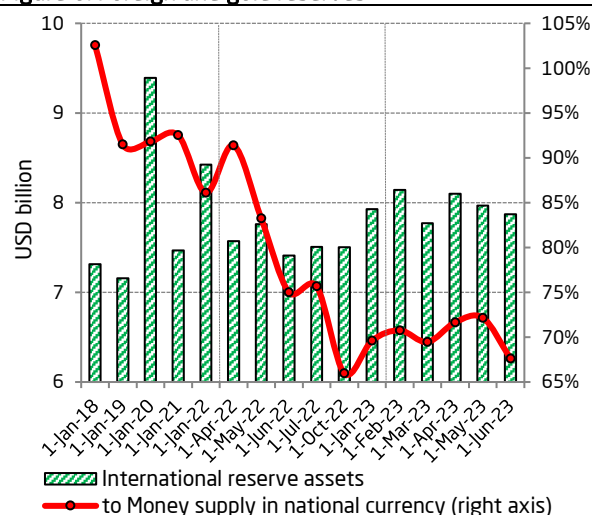
The Government and the National Bank of Belarus make payments on foreign currency bonds, including in February 2023 redemption of USD 800 million of Belarus Eurobonds, placed in 2017. However, part of external obligations is executed in Belarusian rubles, which, along with the purchase of excess foreign 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, in 2023 remain at the level of the beginning of the year and amounted to USD 7.9 billion as of June 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 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.

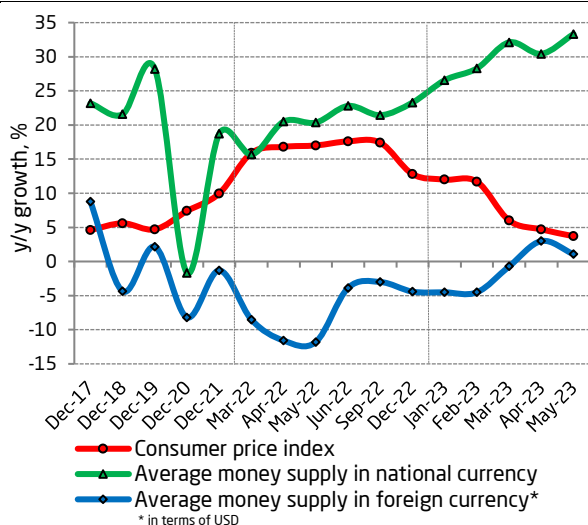
The ongoing monetary policy was not able to fully limit inflation, the consumer price index rose by 10% y/y December in 2021 and by 12.8% y/y in December 2022. The acceleration of inflation was associated with the depreciation of the Belarusian ruble and the persistence of high inflation expectations, 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 weakened consumer demand, the strengthening of the Belarusian ruble against the Russian ruble, a decrease in inflation in the Russian Federation and monetary policy measures, this ensured a slowdown in consumer price growth, which in May 2023 amounted to 3.7% y/y against 17% in May 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 9.5% per annum from June 28, as well as the rates on liquidity standing facilities. 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 8.36% p.a. in May 2023 against 18.66% p.a. in May 2022, new bank loans to legal entities (excluding soft loans and interbank loans) - 8.54% p.a. against 19.96% p.a.

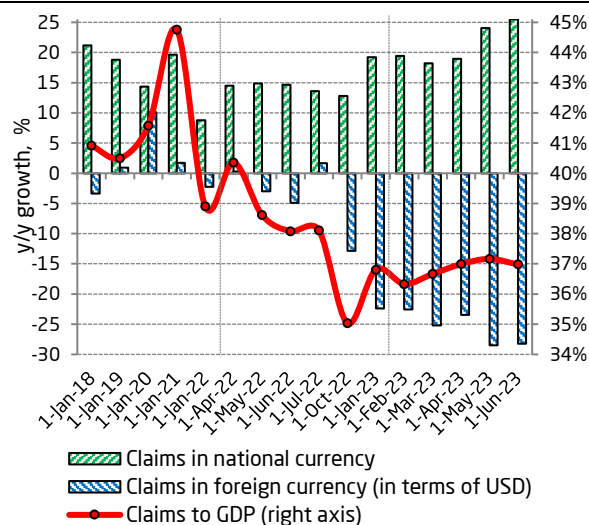
To increase the ability of banks to finance the economy, the National Bank of Belarus has taken a number of additional countercyclical measures aimed at easing prudential requirements for banks. Along with a decrease in the cost of lending, this contributes to growth of banks' claims on the economy in Belarusian rubles, which increased by 25.5% y/y as of June 1, 2023, while claims in foreign currency (in USD equivalent) decreased by 28 % 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

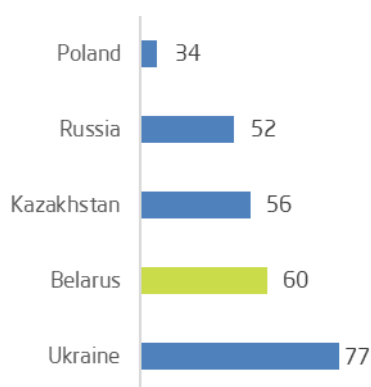


In Q1 2023, the real sector of the Belarusian economy received USD 3 billion of foreign investments, including USD 2.6 billion of direct investments. The major volume is invested to industrial sector (38% of all foreign investments), trade (27%), information and communication (11%), transportation (9%), and construction (8%). The main investors to Belarus were companies from Russian Federation (45% of all foreign investments), Cyprus (29%), the Netherland (4%), and Germany (3%).

As of April 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 15.5 billion (20.8% of GDP).

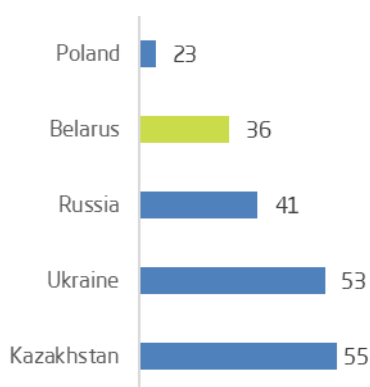
Belarus in international rankings

2021 Human Development Index



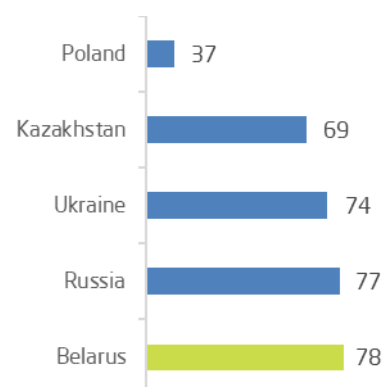
Source: [UNDP](#)

2020 Human Capital Index



Source: [World Bank](#)

2023 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 1.3 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>
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 more than 100 R&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>
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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