

## BELARUS: ECONOMIC SUMMARY

### KEY TENDENCIES

- Decline in economic activity
- Reducing the volume of export-import operations with the growth of a surplus of foreign trade
- Depreciation of the national currency
- Inflation slowdown compared to the previous reporting period
- Growth of bank lending to entities in national currency

### MAIN EVENTS

#### Belarus

The Law of the Republic of Belarus "On Payment Systems and Payment Services", which comprehensively regulates the procedure of making payments, came into force; the law applies to Belarusian and foreign payment service providers.

The introduction of a new payment instrument, a payment software application, in the system of non-cash payments of Belarus is provided for by amendments to the Decree of the President of the Republic of Belarus dated October 16, 2014 No. 493.

The formation of innovative development funds by science and technology parks in 2023-2027 and the procedure for their use are provided for by the amendments to the Decree of the President of the Republic of Belarus dated January 3, 2007 No. 1.

In accordance with the Decree of the President of the Republic of Belarus dated August 1, 2022 No. 264, the State Customs Committee of Belarus will have the right to restructure for up to one year the debt of legal entities on customs and other payments collected by the customs authorities.

In accordance with the Resolution of the Council of Ministers of Belarus dated August 24, 2022 No. 546, the term for circulation of registered privatization checks "Property" has been extended until December 31, 2025.

Belarus has paid in Belarusian rubles interest income on four issues of Eurobonds, in accordance with the temporary procedure for the execution of external government debt obligations, determined by the Council of Ministers and the National Bank of Belarus dated April 6, 2022 No. 212/10.

The international rating agencies Fitch Ratings and S&P Global Ratings downgraded the rating of four Eurobond issues of Belarus, on which the interest income was paid in Belarusian rubles, to the level "D".

The National Investment and Privatization Agency of Belarus and the Association of Industrial Parks of Russia has signed an agreement on cooperation in the development of the industrial capability of Belarus.

The Ministry of Transport and Communications of Belarus has begun the process of selecting the winner of the competition for participation in the reconstruction of the M10 highway section, which will be carried out using the mechanism of public-private partnership, in accordance with the Decree of the President of the Republic of Belarus dated November 26, 2018 No. 461.

The reconstruction of the Belarusian section of the M1/E30 highway is included in the list of high priority of infrastructure transport projects in the countries of the Eurasian Economic Union.

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

The current year results and prospects for the work of the DBRB were considered at a meeting of its Supervisory Board, which was held on August 31, 2022 under the chairmanship of the Prime Minister of the Republic of Belarus Roman Golovchenko. Since the beginning of the year, the DBRB has provided export loans for almost 1.4 billion Belarusian rubles, financing of investment projects amounted to about 4.2 billion Belarusian rubles, small and medium-sized businesses were granted loans in the amount of more than 200 million Belarusian rubles.

**REAL SECTOR AND EXTERNAL TRADE**

In 2022, the Belarusian economy faces increased sanctions from the United States, the European Union (EU) and a number of other countries, as well as the introduction of large-scale sanctions against the Russian Federation and the outbreak of hostilities in Ukraine - countries that were the main trade and economic partners of Belarus. The need to adapt the economy to new operating conditions led to a halt in economic growth after its resuming last year against the background of the global economic recovery after the COVID-19 pandemic. In January-August 2022, Belarus' GDP decreased by 4.9% y/y in contrast to growth by 2.3% y/y in 2021 (Figure 1).

Industrial production declined by 6.6% y/y in January-August 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 from April 2022 for Belarusian companies to carry out road transportation of goods to the EU countries.

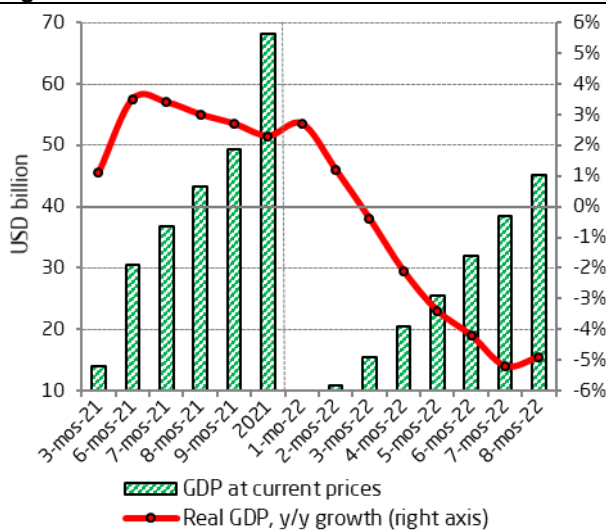
Agricultural production resumed growth due to an increase in the yield of main crops, increasing in January-August 2022 by 1.8% y/y. Sector of the information and communication technology keeps a positive contribution to economic growth in 2022. Its share in GDP has been steadily growing in recent years.

The decline in the disposable money income of the population, which decreased in real terms by 3.4% y/y in January-July 2022, is holding back consumer demand. Retail turnover declined by 2% y/y in January-August 2022, the growth of paid services to the population slowed down to 2.1% y/y against 13.3% y/y in 2021.

The decline in investment activity continues. Fixed capital investments decreased by 5.6% in 2021, and by 18.5% y/y in January-August 2022, including due to a fall of more than 25% in the cost of purchasing machinery, equipment, vehicles.

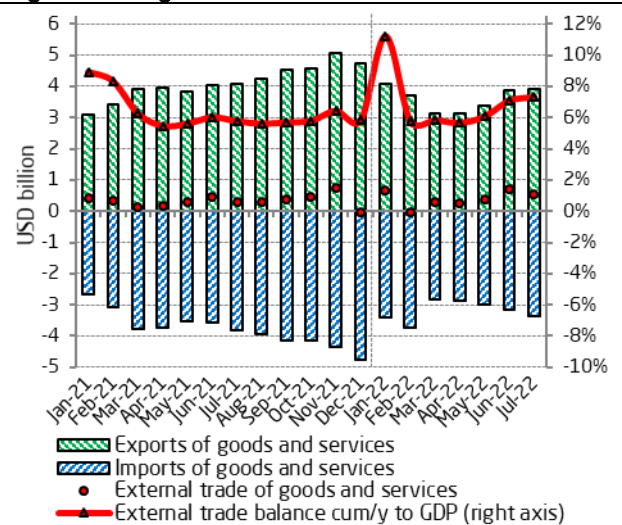
High demand for Belarusian products and an improvement in the price environment in foreign markets contributed to high growth rates of the volume of export-import operations in 2021, and the surplus of foreign trade in goods and services increased to a record USD 4 billion (5.8% of GDP). However, since February 2022, the transit of Belarusian potash fertilizers through Lithuania, which was the main logistics hub in the export of these products, was banned, 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, ferrous metals, and rubber products 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 4.2% y/y in January-July 2022). At the same time, imports of goods and services are declining faster than exports (by 7.4% y/y in January-July), which contributed to maintaining a positive foreign trade balance - USD 2.8 billion in January-July 2022, or 7.3% of GDP (Figure 2).

**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 surplus of foreign trade in goods and services of previous years became the main factor in improving the balance of payments of Belarus, when the surplus of current account amounted to USD 2.2 billion or 3.2% of GDP in 2021 (Figure 3). In the first half of 2022, the current account surplus amounted to USD 311.7 million and remained at the level of the same period of 2021, despite of an increased outflow of investment income, more than half of which was reinvested.

Gross external debt, which remained nearly unchanged in 2021 (with receiving by Belarus USD 0.9 billion in August as part of the general allocation of special drawing rights of the International Monetary Fund), in the first half of 2022 increased by 5% - to USD 44.1 billion as of July 1, 2022 (62.9% of GDP) (Figure 4). The main contributors to the debt growth were the general government and banking sector, while other sectors were reducing their external debt. As a result, the share of the general government sector in the gross external debt amounted to 44%, banking sector - to 19% as of July 1, 2022.

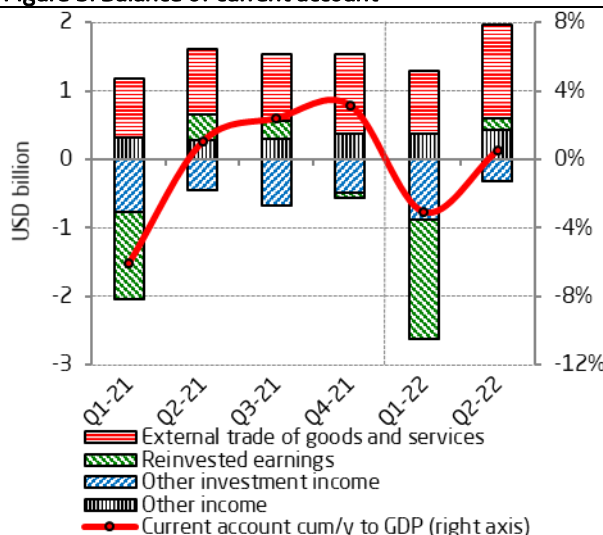
External public debt decreased by 1.9% in 2021 and rose by 6.2% in the first half of 2022, to USD 19.4 billion, or 26.8% of GDP as of July 1, 2022 (Figure 4).

External public debt payments for 2022 were initially scheduled at USD 2.8 billion, of which more than half were intended to the Russian Federation and the Eurasian Fund for Stabilization and Development, which provided Belarus with loans totaling USD 1.5 billion in 2020-2021. In March 2022, the Governments of Belarus and the Russian Federation signed agreements to defer for one year the payments on Russian government financial loans in the amount of about USD 1 billion.

The Ministry of Finance of Belarus keeps working on the placement, in the period up to 2023, of government bonds in external financial markets in the amount of up to 100 billion Russian rubles. However, the expansion of sanctions against Belarus by the United States, the EU and a number of other countries and a drop in its credit ratings hinder the attracting of new borrowings to refinance public debt, except in the financial market of the Russian Federation.

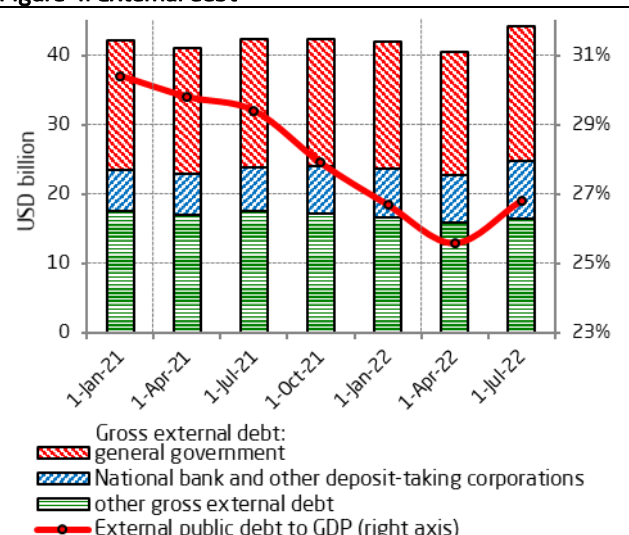
Therefore, same as in 2021, reimbursement of public debt is paid off at the expense of accumulated foreign exchange funds and earnings of the republican budget, the deficit of which is planned to amount to 1.5% of GDP in 2022 against 0.3% of GDP in 2021. The growth of the republican budget deficit in 2022 is associated with a decrease in income from foreign economic activity, in particular from the export of potash fertilizers and petroleum products.

**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 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, euro, Russian ruble and, from July 15, 2022, Chinese yuan) have been formed based on the results of trading on the Belarusian Currency and Stock Exchange.

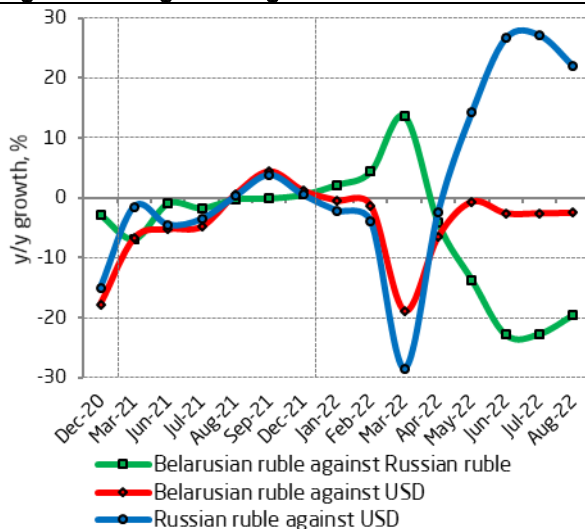
In 2021, amendments to the legislation on foreign exchange regulation came into force, which completed the process of liberalization of foreign exchange regulations, providing for lifting restrictions and simplifying the procedure for conducting foreign exchange transactions and executing foreign trade 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.

Subsequently, the weakening of the national currency against the US dollar slowed down as the Russian ruble strengthened, which was 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 subsequently a fall in imports due to the sanctions and an increase in the balance of payments surplus. In August 2022, the weighted average exchange rate of the Belarusian ruble against the US dollar decreased by 2.5%, against the Russian ruble - by 19.5% y/y (Figure 5).

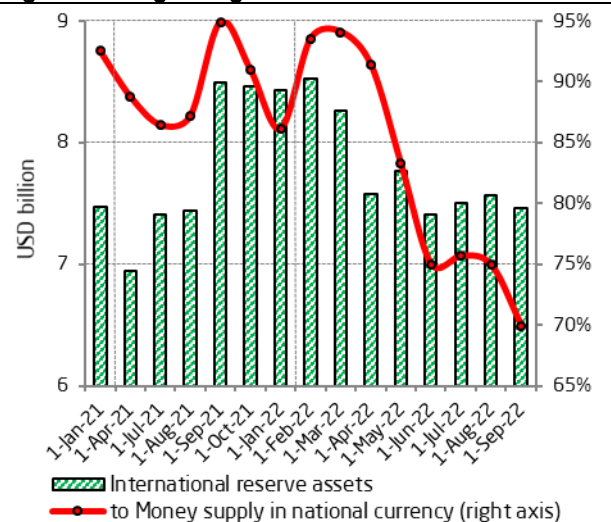
The purchase by the National Bank of Belarus of foreign currency at the Belarusian Currency and Stock Exchange, as well as foreign exchange revenues of the budget, allow maintaining the level of gold and foreign exchange reserves in 2022. In response to increased demand for foreign currency in March of 2022, a part of gold and foreign exchange reserves was used to support the exchange rate of Belarusian ruble. Also, the government and the National Bank of Belarus allocated over USD 1 billion to pay off their obligations in foreign currency. As a result, international reserve assets decreased by more than 10% by the beginning of 2022 and amounted to USD 7.5 billion as of September 1, 2022 (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**

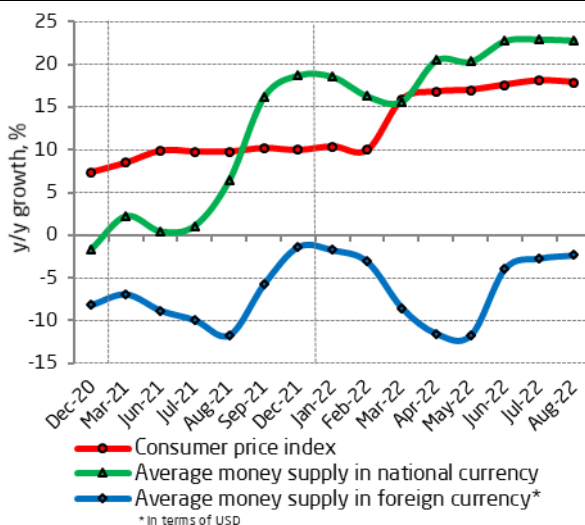
Since 2015, the National Bank of Belarus has been pursuing the monetary targeting policy, which, along with the stability of the national currency exchange rate, allowed to halve the inflation rate in 2017-2019 as compared to previous years. In subsequent years, inflation in Belarus accelerated (Figure 7). In 2022 this was due to the depreciation of the national currency, an increase in the costs of enterprises as a result of the adjustment of logistics and production chains, a further increase in world prices for raw materials and food, an increase in state-regulated prices (tariffs) for fuel and other goods (services), contributing to maintaining high inflationary expectations of the population and enterprises. In August the consumer price index increased by 17.9% y/y and slowed down compared to 18.1% y/y in July, in January-August - increased by 15.5% y/y (Figure 7).

In order to curb devaluation and inflationary processes and maintain financial stability, the National Bank of Belarus raised the refinancing rate, which grew from a historic low level of 7.75% per annum in 2020 to 12% p.a. from March 1, 2022. Control over the money supply was strengthened, for which the National Bank of Belarus returned to targeting the money supply instead of the rate on one-day interbank loans. Since August 2020, the constantly available and bilateral operations to regulate the liquidity of banks has been suspended, credit and then deposit auctions have been resumed. 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 cost of resources in Belarusian rubles is gradually decreasing, although remaining quite high, which constrains the demand for loans. The average interest rate for new term bank deposits of individuals was 13.98% p.a. in August 2022 (17.29% p.a. August 2021), new bank loans to legal entities (excluding soft loans) - 15.88% p.a. (13.67% p.a.).

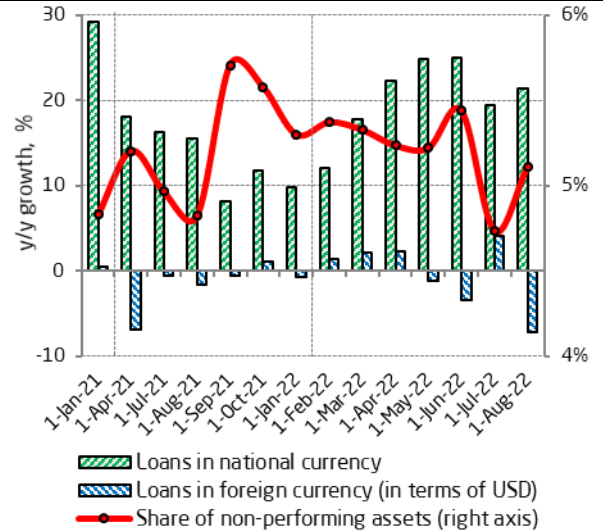
The National Bank of Belarus in 2022 has taken a number of measures to increase the stability of banks and maintain their ability to finance the economy. The rate of deductions to the mandatory reserves from raised funds in foreign currency was lowered; certain prudential requirements were softened, including requirements to regulatory capital adequacy, debt classification and the formation of special reserves; the ability to extend repayment terms and provide new loans were expanded without compromising the quality of the borrower's assessment. As of August 1, 2022, the portfolio of loans in Belarusian rubles issued by banks to legal entities increased by 21.3% y/y, in foreign currency (in USD equivalent) - decreased by 7.3% 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. Bank loans to legal entities**



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

## BELARUS INVESTMENT OPPORTUNITIES

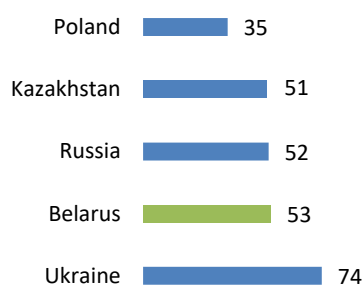


In the first half of 2022, the real sector of the Belarusian economy received USD 4.3 billion of foreign investments, including USD 3.8 billion of direct investments. The major volume is invested to industrial sector (35% of all foreign investments), trade (21%), transportation (14%), information and communication (10%), construction (9%), financial and insurance activities (6%). The main investors to Belarus were companies from Russian Federation (45% of all foreign investments), Cyprus (20%), the Netherlands (6%), and Ukraine (5%).

As of July 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 (23.4% of GDP).

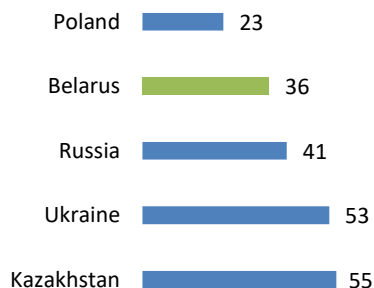
### Belarus in international rankings

#### Human Development Index 2020



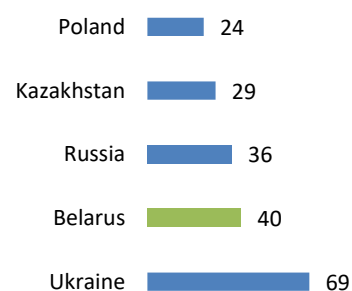
Source: [UNDP](#)

#### The Human Capital Index 2020



Source: [World Bank](#)

#### E-Government Development Index 2020



Source: [UN](#)

#### 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. More than 90 companies with capitals from 15 countries are registered as residents of the park, with a total declared investment over USD 1.2 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 possible free economic zones 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 are residents of the Hi-Tech Park, with a total number of 78 thousand employees, 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 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>
<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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