

Belarus Economy Monitor: trends, attitudes and expectations

Macroeconomic forecast for Belarus

2023–2024

April 2023

Belarusian economy will show its corrective growth in 2023–2024, provided there are no new logistical gaps and significantly tightening sanctions

The country's GDP will grow by 2.5% in 2023 and by 1.1% in 2024 if the upgraded supply chains are maintained, if there are no new significant sanctions imposed on the country, and if monetary and fiscal policies continue to focus on stimulating domestic demand. A fully sustainable economic recovery is unlikely in the coming years due to infrastructural constraints, declining employment, human capital erosion, and weakening trust among the business environment stakeholders. Side effects of the stimulating economic policy in the face of structural output losses will be the weakening of the Belarusian ruble, as well as the persistence of elevated inflation, which will be about 8% in 2023 and 8.6% in 2024 ([Table](#)).

Materialization of the baseline scenario depends on the fulfillment of its prerequisites and assumptions. In the current environment, the degree of uncertainty is extremely high, and therefore the range of probable deviations of the macro indicator dynamics from the baseline forecast trajectory is going to be wide in 2023–2024.

Table. Macroeconomic forecast for Belarus for 2023–2024 under the QPM baseline scenario

Indicator	2022	2023	2024
GDP (% YoY, in real terms)	-4.7	2.5	1.1
Inflation (%, December vs December of the previous year)	12.8	8.0	8.6
Refinancing rate (% per annum, at year end)	12.0	9.0	9.0
USD/BYN exchange rate (#Belarusian rubles per US dollar, annual average)	2.62	2.92	3.16
100*RUB/BYN exchange rate (#Belarusian rubles per Russian ruble, annual average)	3.88	3.74	3.87
Nominal wage (Belarusian rubles, annual average)	1 631	1 858	2 062

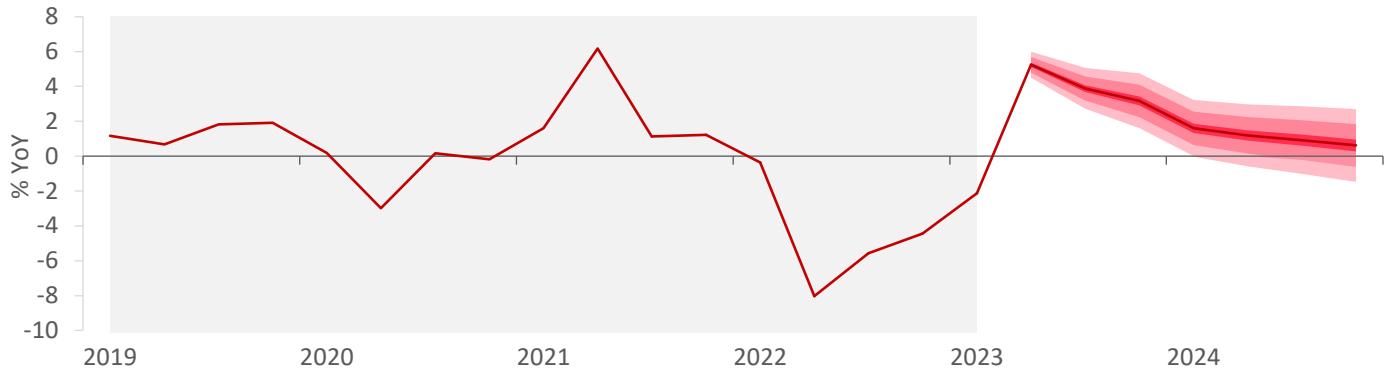
Source: The calculations are based on the Quarterly Projection Model (QPM) for Belarus.

The bulletin titled "Macroeconomic Forecast for Belarus" presents a forecast of the key macroeconomic indicators of the Belarusian economy for up to two years; it is based on a quarterly projection model (QPM) designed for the Belarusian economy. The bulletin provides only the baseline scenario forecast, i.e. the scenario whose prerequisites are subjectively assessed as the most realistic in the current context. A description of the relevant forecast assumptions is in Section 6.

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1. Baseline scenario forecast: economic activity

Figure 1. Forecast of real GDP dynamics in Belarus



Source: The calculations based on QPM, Belstat data.

Note: YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

GDP will grow by 2.5% in 2023

Output growth will be a recovery one after a significant decline in 2022. Loose monetary policy, growing budget spending, and support measures focused on state-owned enterprises will facilitate domestic demand following its 4.3% drop in 2022. Stimulated demand in the context of structural losses in the last year's GDP¹ will shape a positive output gap, which will mean some overheating of the economy (Figure 2.b). It is important to note that the key precondition for the Belarusian economy to grow in 2023 will be maintaining import supply schemes and export supply chains for Belarusian products; the schemes and chains were built in the second half of 2022, which contributed to a partial GDP recovery in Q1-2023 (Figure 2).

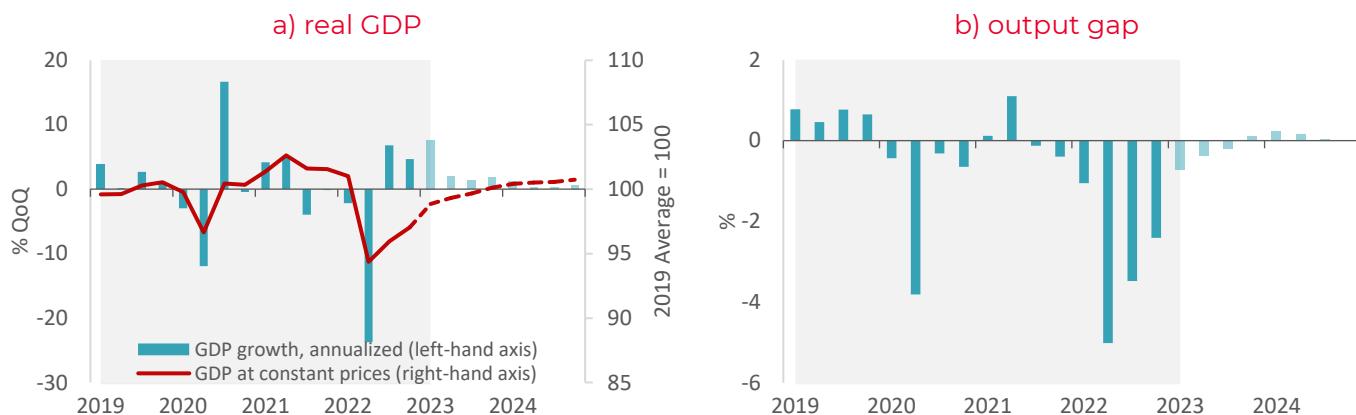
The economic growth trend will have a fading trajectory in Belarus

The annual GDP growth rate will become positive in Q2-2023, following which a local peak of ca. 5% (YoY) will be reached (Figure 1). A high annual growth rate in Q2-2023 will be associated with the low base effect: the output had already recovered partially by early Q2-2023 amid the adaptation of the economy to the sanctions and image shocks; and this will be compared with Q2-2022, when the output shrank sharply against the backdrop of these shocks (Figure 2.a).

At the same time, the GDP growth rate against the previous quarter (seasonally adjusted) will slow down in Q2-2023 due to the limited output growth capacity: GDP approached its equilibrium in Q1-2023 – the negative output gap significantly narrowed (Figure 2.b). A full export recovery is hardly possible because of infrastructural impediments (especially in the potash and wood product supplies), as well as due to shrinking exports of the IT services and transit transportation services. Growing supplies to Russia will be held back by a decreasing support provided by the exchange rate factor. Expanded uncertainty, reduced employment and an unfavorable business environment in the country limit the chance for a significant domestic demand expansion.

¹ The QPM assumes that the GDP decline was largely structural in 2022.

Figure 2. Real GDP of Belarus and the output gap



Source: The calculations based on QPM, Belstat data.

Note: QoQ (quarter-on-quarter) is the annualized growth rate of the quarter versus the previous quarter (seasonally adjusted). All indicators are seasonally adjusted.

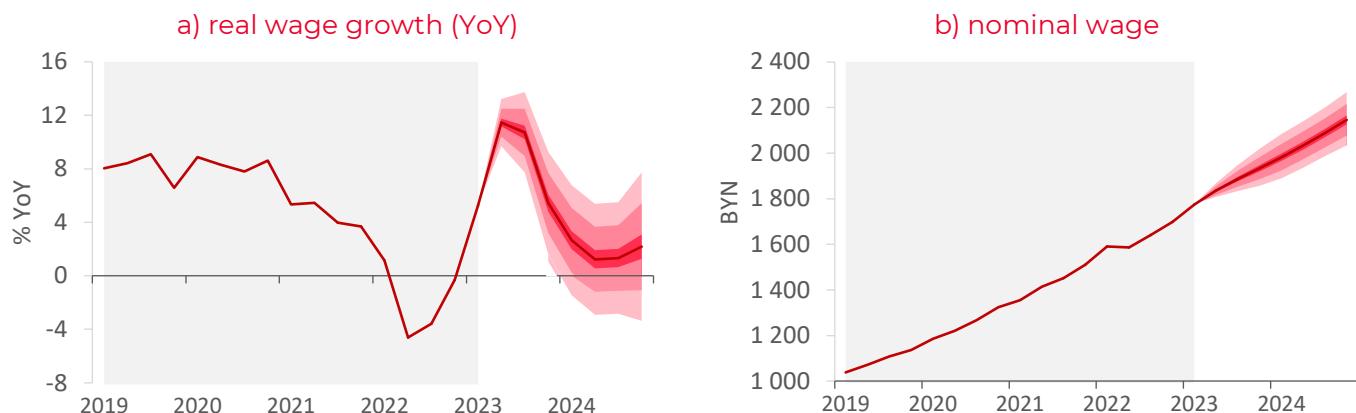
GDP growth will slow down to 1.1% in 2024

Due to the structural decline in the IT sector, which had been driving economic growth from 2018 to early 2022, as well as due to the negative impact of sanctions and the toxicity of dealing with Belarusian enterprises on human capital, investment climate and technological development, Belarus' GDP will remain below its 2021 level in 2023–2024: it will be lower by ca. 2.3% in 2023 and by ca. 1.2% in 2024 versus 2021.

Real wage growth will outpace the GDP growth rate due to the labor market challenges

Declining employment rate resulting from unfavorable demographic trends and outbound migration increases competition for skilled workers among employers. Given the support provided to state-owned enterprises, real wage growth, which started in the second half of 2022, will continue throughout 2023, and it will be ca. 8% (YoY) (Figure 3.a). Ultimately, the real salary will exceed its equilibrium (or its inflation-neutral level) in 2023. In 2024, real wage growth will decrease to ≈2% amid slower output growth. Such dynamics (under the forecasted inflation trajectory, see Section 2) corresponds to an average nominal wage of about BYN 1,858 in 2023 and BYN 2,062 in 2024 (Figure 3.b).

Figure 3. Wage forecast for Belarus

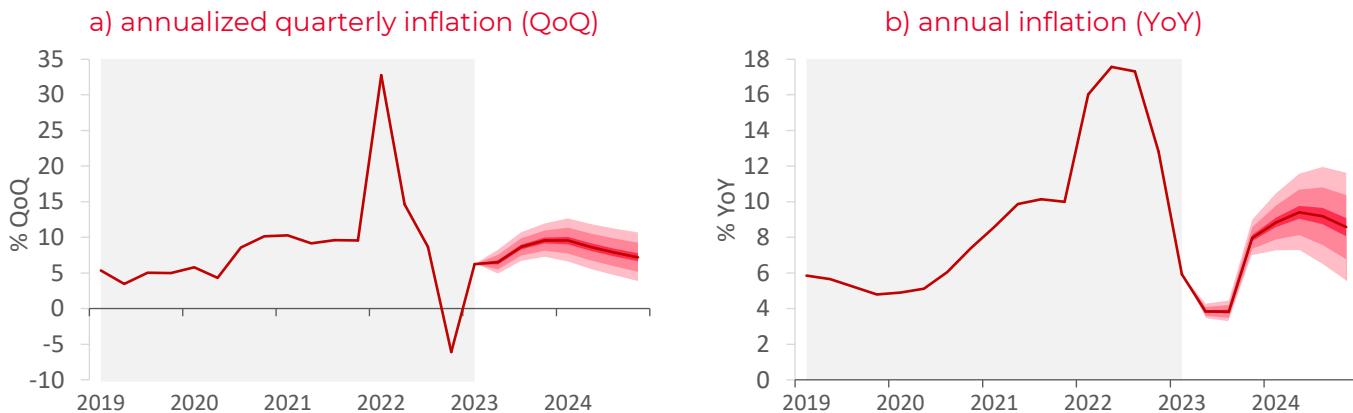


Source: The calculations based on QPM, Belstat data.

Note: YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

2. Baseline scenario forecast: inflation

Figure 4. Inflation forecast for Belarus



Source: The calculations based on QPM.

Note: QoQ (quarter-on-quarter) is a seasonally adjusted annualized growth rate in the period versus the previous period; YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year. All indicators are seasonally adjusted. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

Annual inflation will slow down temporarily below 5% by mid-year, but then it will have accelerated to 7-9% by late 2023

Inflation indicators will have multidirectional dynamics in Belarus in the first half of 2023. On the one hand, pro-inflationary pressure has prerequisites for strengthening after consumer prices get back on a growing track in Q1-2023. These prerequisites include: the weakening of the Belarusian ruble; some easing of administrative price controls; heavy wage growth; and a generally loose monetary policy. As a result, annualized quarterly consumer price growth (seasonally adjusted) will accelerate closer to 10% (QoQ) in the second half of the year after reaching 6.4% (QoQ) in Q1-2023 (Figure 4.a).

On the other hand, annual inflation slowed down from 12.8% (YoY) in December 2022 to $\approx 5.8\%^2$ (YoY) in March, and it will fall below 5% (YoY) in Q2-Q3 despite accelerating quarterly inflation. This is mainly due to the withdrawal of the annual indicator of the March-April 2022 price surge from the calculation, while maintaining the effect of the ad-hoc price decline in October-November 2022 on it. For this reason, the annual inflation rate will recover in the range of 7-9% (YoY) in Q4-2023 only (Figure 4.b).

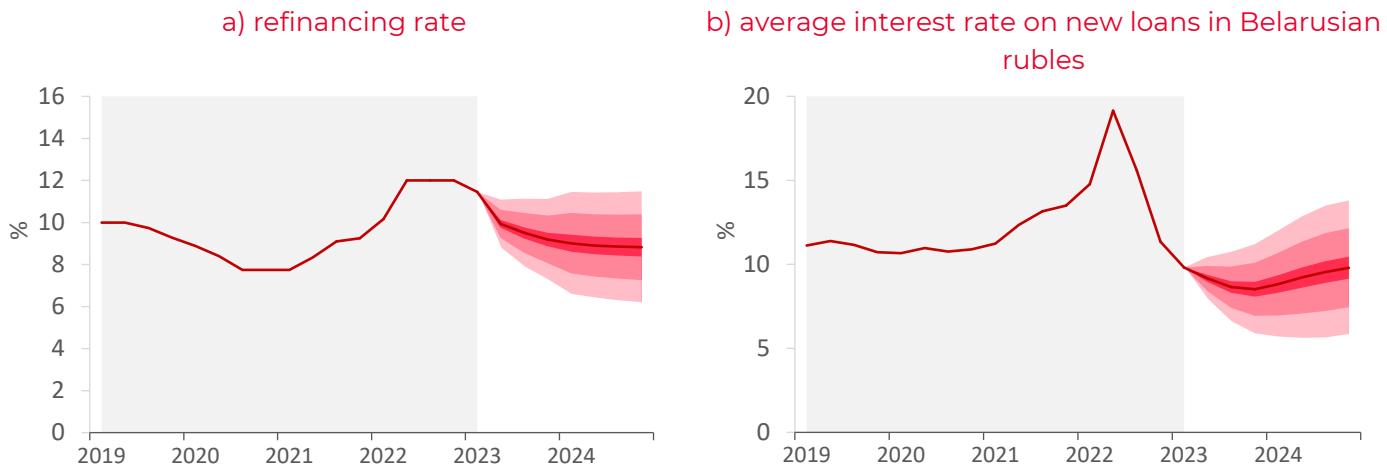
Inflation will be ca. 8.6% (YoY) in 2024

Domestic demand stimulation in 2023 will bring the output gap into a positive range in the second half of 2023 / in the first half of 2024: the economy will somewhat “overheat”. The inflationary process dynamics will reflect that in 2024, and this will support the accelerated consumer price growth. The pro-inflationary impact of the Belarusian ruble exchange rate and elevated inflationary expectations will continue. In addition, a gradual easing of price controls and postponed price increases are likely.

² Belstat formally published annual inflation in March 2023: 6.03% (YoY). However, according to the calculation based on the Consumer Price Index also published by Belstat (December 2010 = 100), annual inflation was 5.84% (YoY) in March. Methodologically speaking, these values should match, however, slight deviations are likely when calculating the annual indicator due to the probable rounding of monthly inflation rates. At the same time, the maximum absolute value of such a deviation was 0.054 p.p. in January 2020 through to February 2023, while it was 0.186 p.p. in March 2023.

3. Baseline scenario forecast: interest rates

Figure 5. Forecast of nominal interest rates in Belarus



Source: The calculations based on QPM.

Note: The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

The refinancing rate will decrease to 9% throughout 2023

If there are no new significant shocks, the National Bank will continue lowering the refinancing rate (Figure 5.a) as part of its chosen demand stimulation strategy without regard to inflation. The refinancing rate will have been around 9% by the year-end, and it will stay close to this in 2024.

The cost of resources in the interbank market — for most of 2023 — will continue to fluctuate around 1% amid a structural liquidity surplus in the banking system, which is not withdrawn by the National Bank. Thus, the interest rate policy of the National Bank will remain extremely soft in 2023.

Average interest rates on loans and deposits in Belarusian rubles will remain close to their historically lows in 2023

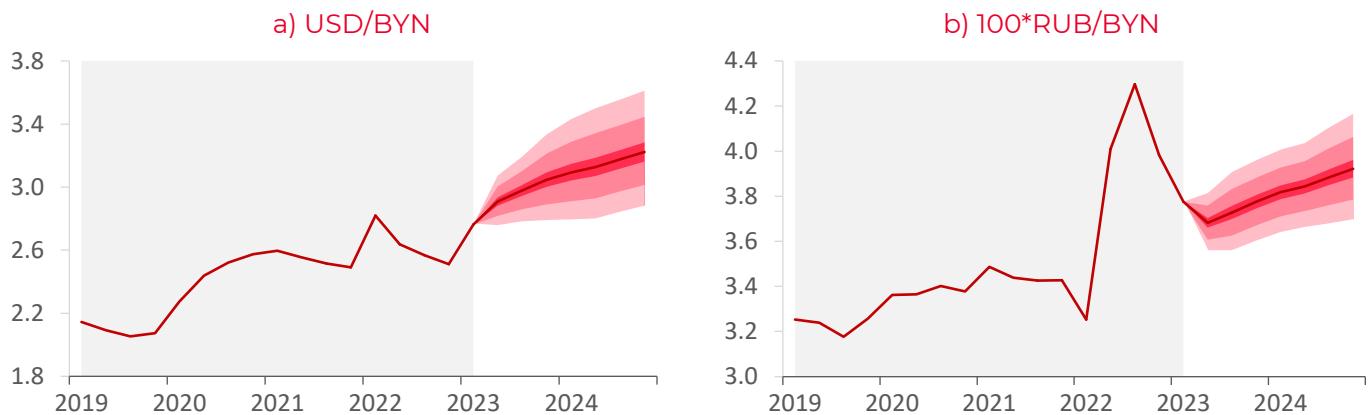
The average cost of the Belarusian ruble credit resources will be ≈9% in 2023 (Figure 5.b): a significant reduction in loan interest rates is unlikely in an environment where pro-inflationary risks prevail. Low interest rates will provide limited support to lending activity considering the context of high uncertainty and risks in the economy.

The average interest rate on new term Belarusian ruble deposits will be 3–4% in 2023; this is largely due to the extremely low yield on corporate deposits. As a result, the real average interest rate on deposits will remain negative. Under such conditions, incentives for savings in term deposits will not be supported, and the share of the active component (cash and money on current accounts) in the structure of the Belarusian ruble money supply will remain historically high.

Interbank market rates, rates for Belarusian ruble deposits and — to a lesser extent — for loans will get higher in late 2023 / early 2024 if the National Bank gets back to active regulation of banks' liquidity.

4. Baseline scenario forecast: the Belarusian ruble exchange rate

Figure 6. Forecast of nominal exchange rates of the Belarusian ruble



Source: The calculations based on QPM.

Note: The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.

Support provided by foreign trade to the Belarusian ruble will weaken in 2023

The terms of trade had already deteriorated by early 2023; and this process has prerequisites to continue against the backdrop of adjusting global pricing for raw materials and the Russian ruble weakening against the US dollar, euro, and yuan. Attempts by the authorities to stimulate domestic demand while maintaining supply chains will result in an increase in the physical volumes of imports of goods, while a significant increase in exports faces infrastructural impediments. Services exports will shrink because the IT sector output and the transit traffic will decrease. As a result, the foreign trade surplus may significantly decrease in 2023. The trade surplus will continue to be supported by the benefits of Belarus' purchases of Russian oil at low prices versus global oil pricing.

In 2023–2024, the Belarusian ruble will stay on a weakening trajectory against the currencies of the countries that are Belarus' key trading partners

In terms of the nominal effective exchange rate, the Belarusian ruble will depreciate by ≈6% over 2023 (Q4-2023 versus Q4-2022) due to the reducing foreign trade surplus and maintaining low interest rates on the assets denominated in Belarusian rubles. The dynamics of the exchange rates of the Belarusian ruble against individual foreign currencies will be largely determined by the changes in their cross rates on the world market. Thus, if the USD/RUB rate is close to 80 Russian rubles per US dollar, the USD/BYN rate will be 2.92 Belarusian rubles per US dollar on average in 2023 (Figure 6.a). In this case, the exchange rate of 100*RUB/BYN is projected at 3.74 Belarusian rubles per 100 Russian rubles on average in 2023 (Figure 6.b). In 2024, the weakening trajectory of the Belarusian ruble will maintain due to the low growth potential of the country's economy.

5. Baseline scenario forecast risks

Materialization of the threat of supply chain disruptions can cost more than 1 p.p. of the GDP growth in 2023

The strength and stability of the supply chains of goods to Belarus and the exports of Belarusian products, including petroleum products, are not guaranteed. Both the tightening of approaches to such supplies by intermediary countries and the weakening of the financial performance of Belarusian firms due to the deterioration in the terms of trade can lead to decreasing both imports and exports. Most likely, the state and businesses will adapt to adverse effects and a significant output failure, given its incomplete recovery after the 2022 shock will not occur in such a scenario.

The simulation outcomes (when the GDP volume stops growing starting from Q2-2023) show that the economy can grow by about 1.3% in general in 2023 due to the recovery already achieved in Q3-2022 through to Q1-2023. Inflation in such a scenario will remain close to the baseline forecast or even slightly higher, since if the current approaches to the economic policy enforcement are maintained, the output gap will remain positive, and lower GDP growth compared to the baseline forecast will be associated with a slowdown in potential output growth.

Economic downturn can continue into 2023 and 2024 with increased sanctions pressure

One cannot rule out the tightening of the sanctions regime against Belarus and Russia this year if the announced deployment of Russian nuclear weapons in Belarus happens *inter alia*. New sanctions may affect — among other things — imports to Belarus, the financial sector and the transportation industry. If new sanctions restrictions are associated with logistical impediments and intensified exit of Western companies from Belarus, then the country's GDP will decrease in 2023 and in 2024 probably too.

Increased stimulation of domestic demand threatens macroeconomic and financial stability

The scenario of a larger-scale stimulation of domestic demand, including investment activity to achieve the GDP growth target of 3.8% in 2023, remains likely. Over-stimulating economic policy can make the GDP growth higher in 2023, but at the cost of persistently galloping inflation and a significant weakening of the Belarusian ruble. At that, it is highly likely that such a policy may bring the Belarusian economy to recession again already in 2024 combined with increased inflation and devaluation expectations, even without new sanctions manifestations and while maintaining adapted supply chains.

Materialization of the threat of a significant weakening of economic activity in Russia will affect the Belarusian GDP

The Belarusian economy's dependence on the Russian economy increased last year. At the same time, the stability of the recovery process in Russia is not predetermined. The tightening of the sanctions regime, issues with redirecting oil and gas exports, worsening financial performance of enterprises, population migration, quality deterioration of human capital, growing distrust among the population and businesses, crowding out private investments by less productive state investments can lead to a prolonged economic downturn in Russia, which will shrink demand for Belarusian exports and weaken economic activity in Belarus.

Probability of a global recession poses a threat to the economy of Belarus

The combination of challenges in the banking sector of developed economies with an unfinished fight against inflation can become a trigger for prolonged stagflation in the world, primarily in developed economies. Due to the deepening isolation of the Belarusian economy, the impact of weak external demand will be limited, but sensitive. Increased external inflationary pressure, weakening exports and secondary negative impacts on consumer and investment activity are likely.

Rapid recovery of fertilizer exports is a positive risk for the Belarusian economy

The likelihood of such a scenario seems small, but it can materialize if the EU restrictions on the transit of Belarusian chemical products are eased. Recovery dynamics of the Belarusian GDP will accelerate sharply in this case: the economy can grow by more than 3% in 2023 and, most likely, by over 2% in 2024. Such a scenario will be positive for the state budget due to the budget revenues associated with customs duties and taxes on income and profits, and this scenario will be positive for foreign trade, gold and foreign exchange reserves and, probably, for inflation. At the same time, one should be aware that the positive effects of a rapid recovery in fertilizer exports would fade away gradually: within a few years, Belarusian GDP growth will return to potential growth rates, which will not exceed 1-1.5% per year under the considered favorable scenario due to structural limitations and substandard institutions.

6. Prerequisites and assumptions of the baseline scenario forecast

Preservation of the current sanctions regime against Belarus

No new significant sanctions restrictions will be introduced against Belarus. This in turn implies, for example, that the Belarusian armed forces will not be directly involved in the war in Ukraine.

Preservation of the established import and export logistics chains

There will be no logistical failures in 2023–2024. Belarusian enterprises will be provided with critical imports, but their delivery to the country will be associated with higher costs. The export schemes for Belarusian goods, including petroleum products, set up in the second half of 2022, will be preserved. At that, exports of potash fertilizers and wood products will remain significantly below pre-crisis levels due to infrastructural impediments.

Russian support

Belarus will continue getting crude oil from Russia at low prices and export ≈9 million tons of petroleum products per year mainly through Russian seaports. Belarusian mechanical engineering and electronics manufacturers will keep their Russian market shares in the context of the Russian economy structure changing in favor of the military-industrial complex and many Western companies exiting the Russian market.

Stimulating domestic economic policy

Real non-interest expenditures of the consolidated budget will grow in 2023, which will generate a positive fiscal impulse. This impulse will fade in 2024, as there will be limited capacity for the budget revenues to increase.

The National Bank will keep its restrictions on liquidity control operations in 2023 in an effort to ensure low interest rates. In early 2023, the banking system continued running in the context of a significant excess liquidity, which was not withdrawn by the National Bank, and the refinancing rate reduced by 1.5 p.p. since the beginning of the year down to 10.5% in mid-April. The interest rates in the credit and deposit market remained at their historical lows amid such conditions. Regulatory bank liquidity interventions may ease in late 2023 onwards, subject to materialization of inflationary risks.

Money emission will be in the scope not causing a significant imbalance of supply and demand in the economy. That is, the current risk of a large-scale increase in unsecured emissions in an attempt to achieve the planned GDP growth rate does not materialize to a full extent.

Slowdown in global economic activity³

Global GDP growth will weaken in 2023 due to monetary policy tightening and easing fiscal stimulus in major economies. There will be no full-scale financial stress due to the challenges in the banking sector in the US and the EU.

The Russian economy will continue the structural transformation process: its GDP will grow by 0.7% in 2023 and by 1.3% in 2024. In case of Belarus, effective external demand will grow by 1.1% in 2023 and by 1.4% in 2024 after a near-zero trend in 2022.⁴

Weakening of external inflationary pressure

Cooling global economic activity will weaken global inflationary processes. However, due to tight labor markets in developed economies and Russia, as well as due to accumulated cost increases, effective external inflation will remain elevated for Belarus, and it is projected to be 4.9% in 2023 and 3.3% in 2024 (it was about 10% in 2022).⁵ Pricing environment will worsen for Belarusian trade due to lower global commodity prices versus the 2022 average and due to the weakening of the Russian ruble against the US dollar to levels close to 80 RUB/USD.

³ The baseline scenario is based on the IMF forecasts (April 2023) of external economic conditions. See: <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>.

⁴ Effective external demand has been calculated for Belarus as the weighted average GDP growth of Russia, China, the EU and the US, with the weights of 0.60, 0.05, 0.15 and 0.20, respectively.

⁵ Effective external inflation has been calculated for Belarus as a weighted average increase in the Consumer Price Index in Russia, China, the EU and the US, with weights of 0.60, 0.05, 0.15 and 0.20, respectively.