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Stolen decades: the unfulfilled expectations of the Belarusian economic miracle

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Abstract

The case of the Belarusian economy has puzzled many academic scholars for years. Belarus has often been referred to as a transition outlier, given its relatively fast recovery in 1996 and spectacular growth prior to the global financial crisis without much transformation of its economy. Three decades after gaining its independence, the state control of the economy still remains considerably high. Subsidized financing of state-owned enterprises allowed to preserve production capabilities over the first decade, achieve some productivity gains in the late 1990s–early 2000s, and to avoid social destabilization. However, with a delay in structural reforms, this economic model, also heavily dependent on the Russian subsidies and foreign debt, has become fatigue, driving the economy into stagnation in the 2010s. The Covid-19 pandemic, the 2020 post-presidential political crisis and Russia's war in Ukraine in 2022 put further strains on the economy, calling for change. This working paper will give an overview of the Belarusian economic developments before the presidential elections to have a better understanding of how various rigidities of the Belarusian economic model have amplified the detrimental effect of the political unrest for the economy and the Belarusian society overall, and will discuss the anti-crisis and mid-term economic reforms Belarus will have to undergo.

A shorter version of this working paper will be available in Korosteleva, E., Petrova, I. and A. Kudlenko (eds.), *Changing Belarus in the XXI century: between dictatorship and democracy* (Routledge, forthcoming). The authors would like to acknowledge help with some data and fruitful discussion with Katerina Bornukova and Dzmitry Kruk from BEROC Economic Research Center.

1. Introduction

Among all post-socialist economies that embarked on economic transition in the late 1980s–early 1990s Belarus can typically be regarded as an outlier. Compared to its counterparts in Central and Eastern Europe and Baltic States (CEB) which on average went through a deeper and more prolonged output contraction in the 1990s after initiating the economic reforms (EBRD, 2005), the Belarusian economy showed impressive economic growth in the late 1990s–early 2000s, having hardly undergone any economic transformation. As of 2000, a decade after a transition began in the region, a private sector in Belarus accounted for a mere 20 percent of GDP compared to 67 percent on average across its neighboring counterparts[1].

Following some fragmentary economic liberalization in 1994–1995[2], the reforms were reversed with the state assuming an increasing role in controlling the economy. A pervasive state intervention manifested via increase in state ownership, price controls, state redistribution of financial resources to 'priority' sectors of the economy, setting of production targets for industry and centrally-set wage targets (Korosteleva and Lawson, 2010). While some of these Soviet anachronisms were eliminated throughout the later decades, the practice of SOEs' subsidizing, and other forms of state intervention in the economy have been preserved (Korosteleva, 2012). Regardless of the significant role the state has played in the economy for decades and moderate structural reforms, the economy grew on average 8.1 percent per capita over the period of 1996–2008 (World Bank WDI, 2021a).

Has the Belarusian economic miracle continued to live up to its expectations beyond the global financial crisis (GFC)? While inheriting fairly favorable initial economic conditions at the start of transition (Korosteleva and Lawson, 2010) and experiencing less pronounced output contraction in the early 1990s due to delayed economic reforms and reliance on Russia's subsidies, the standard of living in Belarus increased only two-fold in 2020 when compared to 1990, while it has almost tripled in neighboring Poland, viewed as a contrasting example to Belarus from the perspective of its transition experience. Poland also made a faster recovery following initial output contraction, recovering its pre-transition level of GDP per capita already in 1996, whereas Belarus did it only by 2003. The rate of economic growth has noticeably slowed down in Belarus post-GFC, but more so over the past decade, compared to its CEB counterparts,

1 The average is calculated using private sector shares in GDP reported in the EBRD Transition Report (2005) for 2000 for the following neighboring states of Belarus: Lithuania (70%), Latvia (65%), Poland (70%), Ukraine (60%) and Russia (70%).

2 Between 1993 and 1995, the IMF supported the economic reforms and macroeconomic stabilization in Belarus under two programs: the Systematic Transformation Facility and Stand-By Agreement.

which seem to have weathered better the turbulent times of transition and global financial crisis, steadily paving the way towards prosperity.

The structural rigidities of the economy, accumulated over the past few decades, including a dominant role of the state in the Belarusian economy, a surge in the levels of external and public debt denominated predominately in foreign currency, and continuing dependence on the Russian economy, have placed serious constraints on future economic growth in Belarus. The mismanagement of the Covid-19 pandemic, the adverse consequences of the 2020 political crisis, and Russia's war in Ukraine in 2022 have further aggravated the economic situation in Belarus, contributing to the decline in economic growth, an increase in vulnerability of its banking sector and public debt position and a boost of inflation with the expectations of the Belarusian economy sliding into recession in 2022 and stagnation afterwards. All these call for an urgent need for economic reforms, but the speed and success of which depend on the resolution of the current geopolitical crisis in the region and the political crisis inside Belarus.

The next section overviews the Belarusian's development path of transition over the past three decades to better understand some structural rigidities the economy has accumulated over the past and how they constrain its further economic development. It proceeds with the discussion of the contemporary developments, focusing in particular on the aftermath of the 2020 political crisis, Russia's war in Ukraine in 2022 and further implications for its economic development. Section four provides discussion of the reforms Belarus would need to undertake in the foreseeable future, and the conclusions are drawn in section five.

2. Belarus's path of transition: an overview

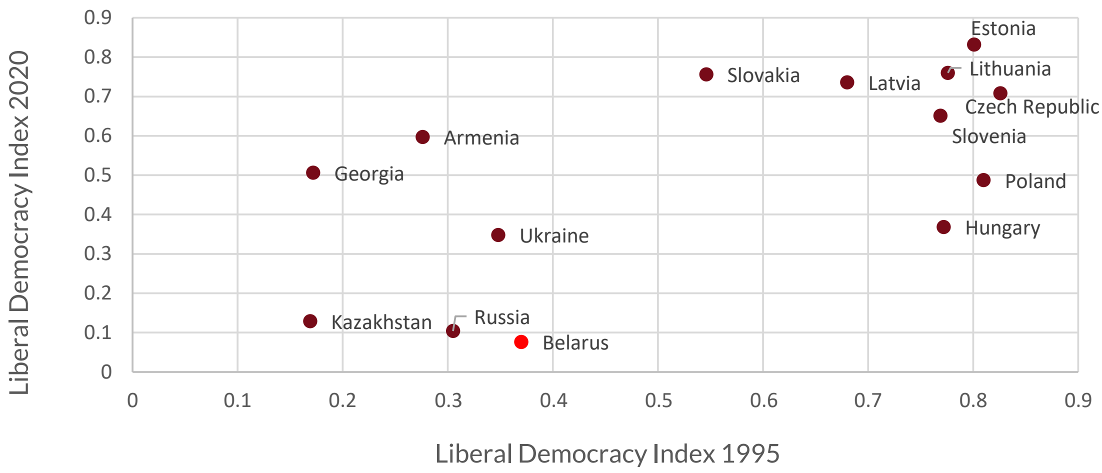
2.1. Early-stage of transition: 1990–1995

The initial shock for all transition economies was the collapse of the administrative planned system which predetermined the transformational recession in socialist countries marked by initial fall in output (Campos & Coricelli, 2002). The CEB countries, committed to market reforms and integration with the European Union, followed the conventional transition approach of pursuing the policies of liberalisation, deregulation and privatisation.

After the dissolution of the Soviet Union, the Belarusian authorities were neither ready for a radical reformation of the country, nor expressed their willingness to do that. At that point, the Belarusian economy remained heavily dominated by energy-intensive manufacturing and mining industries that determined the strategy of the Belarusian authorities at that time to preserve the arrangements within the single Ruble zone and trade links with Russia, its core supplier of energy. Ensuring a continuing supply of gas and oil from Russia at below-market prices, helped Belarus avoid the early sharp transition decline in production that was typical of the region. However, an expansionary macroeconomic policy of the early 1990s to prevent an output contraction and decline in real wages, triggered hyperinflation and declining living standards, driving Belarusians to elect the populist Lukashenko, who came as an outsider and whose election platform was focused on fighting corruption and Belarus-Russia unification. The beginning of Lukashenko's presidency, 1994–1995, was marked by some fragmented market reforms, which were rather attributed to the liberal economic policy pursued by the government headed at that time by Prime-Minister Chigir. The macroeconomic stabilization measures taken by the government around that time helped reducing inflation from four-digit figure in 1994 to two-digit figure in 1996, but at the cost of declining output and employment (Korosteleva, 2004).

In fear of losing his political popularity, Lukashenko reversed the reforms in 1996, starting from the amendment of the constitution, extending his presidential term, and the replacement of the parliament with a subordinate National Assembly. This has set the path for establishment of an authoritarian regime with the country liberal democracy index deteriorating sharply since the middle of the 1990s (Figure 1). In turn, economic policy was turned into the tool of assuring the political viability of the dominant political elite in the sense of avoiding some of the more direct negative social costs of transition (Korosteleva, 2004; Korosteleva, 2007b).

Figure 1: Liberal Democracy Index in the transition region, 1995 compared to 2020



Source: V-Democracy dataset (2021).

2.2. An economic miracle illusion: 1996–2004

Admitting a decrease in aggregate demand as one of the factors of output decline, the authorities stressed the importance of state stimulation of demand through policies of an unprecedented credit expansion, negative real interest rates, and administrative price control as central ones to strike a balance between achieving economic growth and minimizing negative social costs of transition. Repression of the financial sector was placed in the center of this economic policy to make financial intermediaries serve the government needs: banking reforms were halted and state control of the banking sector was reinforced. Re-nationalization of specialized banks and subordination of the National Bank of Belarus (NBRB) to the government made the banking system impotent and turned it into control tool.

Administrative reallocation of resources aimed at keeping state-owned enterprises (SOEs) afloat and boosting output. The mechanism of resource allocation was not only realized through the directed credits supplies to preferential sectors of the economy, but also through such indirect instruments as relief from paying some taxes and customs duties by the 'strategic' sectors of the economy at the expense of increasing tax burden on a private sector; licensing of certain economic activities that aimed to crowd out the potential competitors from the market; rationing access to cheap natural resources; multiple interest rates; multiple exchange rates, restrictions in foreign exchange market and price distortions. The state control in the real sector of the economy was further established via halting large-scale privatization and introducing in 1997 the 'golden share' that granted unlimited right to the state to revoke any managerial decisions of joint-stock enterprises with state-held stakes, extended to any privatized enterprises in its updated version of the law passed in 2004, undermining the institution of private property[3] (Korosteleva, 2007b). Overall, pervasive state intervention in economic regulation in Belarus created a type of state capitalism, combining state ownership and state control of the economy with the elements attributed to crony capitalism, promoting rent seeking practices to the benefit of political elites (ibid.).

The system of social support was largely based on price control for basic food, housing and communal services – all attributes of a planned economy. Moreover, the state directed banks to provide wage credits to enterprises to assure timely wage payments to employees. Periodic increases in nominal wages and subsidies to poor people were also used to tackle the issues of poverty. The measures introduced facilitated an increase in short-term living standards, creating an illusion of equality and stability. World Bank (2002:4) estimated that at the international yardstick of USD 4.3/day 'only about 10 percent of the Belarusian population was to be considered poor in 1999, compared to 50.3 percent in Russia or 18.4 percent in Poland.

Public and quasi-public investment-led economic growth was further supported by direct and indirect subsidies from Russia and favorable external environment that boosted Belarusian exports in the late 1990s–early 2000s. Being a small open economy, Belarus highly depends on foreign trade. Since the establishment of the customs union between Russia and Belarus in 1995, Belarus received unlimited access to the Russian market and sizable energy discounts. Russia also agreed to establish trade relations with Belarus, which partly occurred in barter. The barter transactions usually took shape of exchange of the goods in which sides obliged to supply each other with amounts of products at a price fixed in the USD according to the official exchange rate, benefiting Belarus which exchanged its overpriced industrial products for underpriced oil and gas from Russia. Finally, Belarus has continuously received subsidized loans from Russia. Altogether, the annual amount of Russian energy discounts and loans subsidies reached between 11 and 19 percent of the Belarusian GDP in late 1990s–early 2000s (Silitski, 2002; Aslund, 2021)[4].

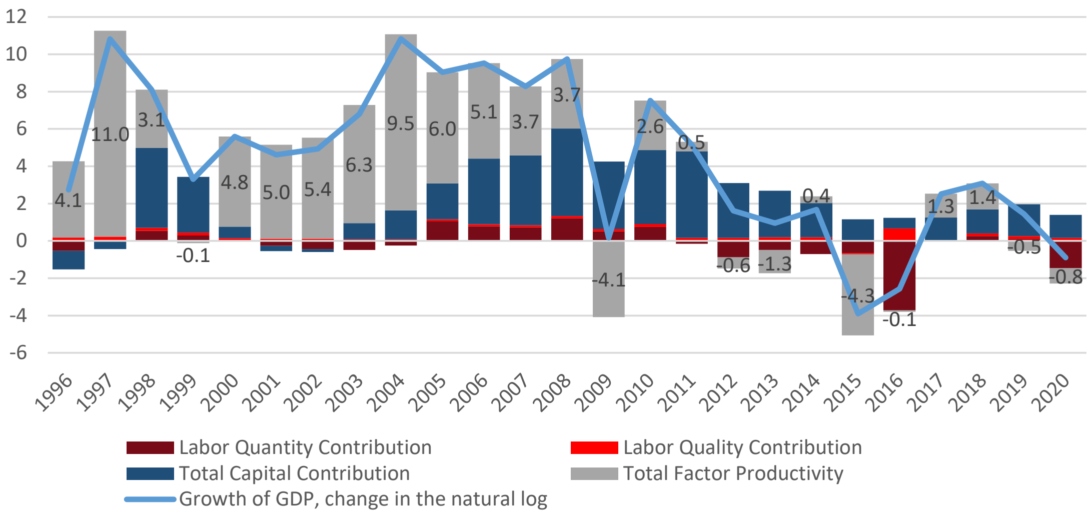
The policy of money-led stimulation of aggregate demand triggered the surge in households' consumption and investment. Subsidizing SOEs allowed to preserve their production capabilities in the medium run, gradually increasing the share of productivity as a driver of the economic growth in the late 1990s and early 2000s (see Figure 2). Altogether, credit-stimulated economic growth jointly with the Russian subsidies in-kind ensured a fast recovery of the Belarusian economy with economic growth rate averaging at 7 percent over the period of 1997–2004 – the phenomenon coined in the literature as the Belarusian economic miracle (Korosteleva and Lawson, 2010).

However, the negative consequences of money-led stimulation of the economy accelerated inflation which led to demonetization and unofficial dollarization of the economy. This also ex-

3 The 'golden share' rule was abolished in 2008.

4 According to Aslund (2021), Russia's subsidies amounted to USD 6 bln per year in early 2000s, which is based on the average estimate of the Belarusian GDP of USD 32 bln over the period of 2000-2004 (WB WDI, 2021), were reaching 19% of GDP. The energy discounts were reduced post-2008 but according to the IMF (2019a), they still remain substantial.

Figure 2: Real GDP growth decomposition



Source: Based on The Conference Board. 2021. The Conference Board Total Economy Database™, October 2021, http://www.conference-board.org/data/economydatabase/

Note: Total Factor Productivity (TFP) growth is a residual component of GDP growth not accounted for by capital accumulation, labor quality and quantity growth. It reflects efficient use of resources, including through innovation.

plains an erosion of capital investment in real terms by the early 2000s (as evidenced through Figure 2). A loose monetary-credit policy led to inefficient allocation of resources, lowering productivity of accumulated capital and overall deterioration of Belarus's competitive position, questioning sustainability of the domestic-led strategy of demand stimulation (Korosteleva and Lawson, 2010; Kruk, 2013).

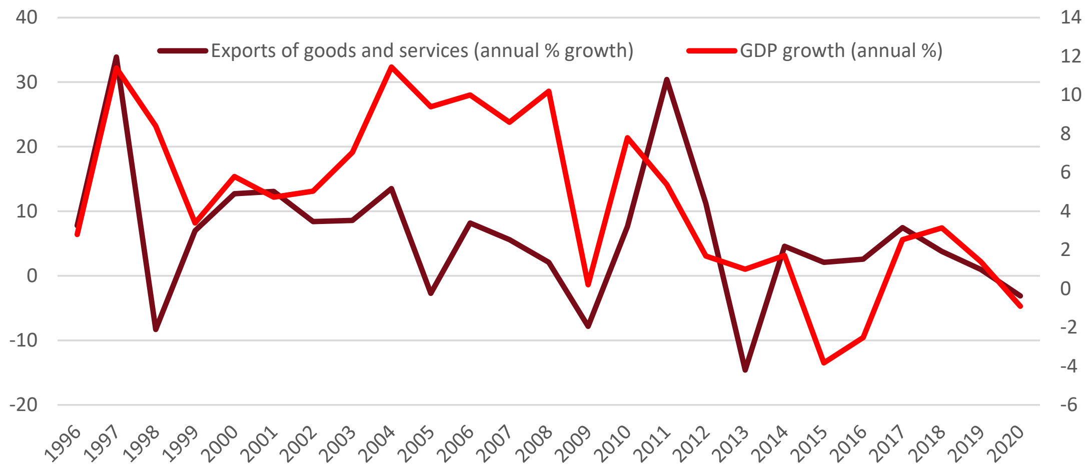
2.3. A dual path of economic development: 2005–2019

2.3.1. Tensions with Russia, industrial modernization and recession

The economic developments in the late 2000s were driven by the reduction in Russia's subsidies that urged the authorities to initiate some fragmentary structural reforms, including taking some steps towards modernization of the industrial sector and private sector initiatives (including targeted privatisation), while continuing subsidizing SOEs.

Exports to Russia started to decline in 2005 reflecting a significant drop in the Belarusian export growth rate overall (Figure 3, left-hand side y-axis). This was triggered primarily by the

Figure 3: Real GDP growth and export growth, in percentages, 1996–2020



Source: World Bank, 2021a [accessed 28/09/2021]; a left-hand side y-axis denotes export growth rates; a right-hand side axis shows GDP growth rates.

switch to the Value Adding Tax (VAT) destination principle in bilateral trade with Russia, but also a declining competitiveness of the Belarusian machinery and equipment products with Belarus losing its share in the Russian market to Chinese manufacturers[5]. The export position was worsened further since 2007 as a result of political tensions with the Russian authorities who initiated a policy of gradual adjustment of the price of gas supplied to Belarus to market prices, starting with a doubling of the gas supply price in 2007 (Korosteleva, 2012).

This move had adverse consequences for the Belarusian economy, given relatively high energy intensity of Belarusian industries. Higher energy prices also harmed the competitiveness of export-oriented enterprises specializing in production of transport, equipment and electric goods, widening trade deficit. Finally, as a last straw in trade wars between Russia and Belarus was the introduction of a special duty on crude oil exports to Belarus in 2007–2009 to settle the long-lasting disputes between the two countries regarding sharing revenues from oil export duties in relation to the rest of the world that reduced energy subsidies to Belarus further (IMF, 2019a).

The GFC crisis further reduced the Belarusian export growth in 2008–2009 (Figure 3), widening a current account deficit (Table A1 Appendix A) and triggering the fall in GDP per capita from 10 percent in 2008 to stagnation in 2009 (Figure 2), and together with populistic economic policy (loose monetary policy and expansionary fiscal policy) in the 2010 presidential elections

5 Exports of machinery goods to Russia fell from approximately 75 percent of the total number of exported units in 2001 to just about 35 percent in 2005 with further steady decline in the subsequent years (World Bank, 2010), following the preparations and the consequent accession of Russia to the World Trade Organization (WTO).

year resulting in a severe currency crisis in the first half of 2011 (Alachnovič & Naurodski, 2011). Devaluation of the Belarusian ruble by 60 percent in the light of escalation of the currency crisis in spring 2011 led to the increase in Belarus' competitiveness, boosting significantly export growth (Figure 3) and reducing current account deficit from 14.5 percent in 2010 to 8 percent in 2011 (Korosteleva, 2012; WB WDI, 2021a).

In the early 2010s Belarus remained predominantly an industrialized economy with industry accounting for nearly 32 percent of GDP, given the lack of structural reforms and halted large-scale privatization (Korosteleva, 2012). The industry was dominated by large-scale vertically integrated enterprises, specializing primarily in machine-building and metal processing, chemical and petrochemical production, and food and wood processing. While during the late 1990s–early 2000s, the industry remained a key source of employment and contribution to GDP (EBRD, 2005), in later years some of these incumbents have become a burden for the economy given growing obsolescence of capital stock, high energy intensity of the industry, and controlled supplier and distribution network that prevented entry of new firms (Korosteleva, 2012).

To address a decline in output growth during the post-GFC period, the authorities initiated some industrial modernization during the period of 2012–2015 via increase in investment directed towards SOEs, targeting an upgrading of their worn-out fixed assets, and enterprise restructuring.

The attempts of industrial modernization largely failed, which is also evidenced via a declining and negative contribution of total factor productivity to economic growth in the early 2010s (Figure 2). Large-scale privatization and reforms directed towards increasing enterprise competitiveness remained stagnant[6]. Foreign direct investments post-2011 remained low to ignite any foreign capital-led modernization of the real sector of the economy[7] (Table 1 Appendix A). Overall, as of 2013, Belarus remained one of the least reformed economy with the progress of transition being stalled since the reversal of political and economic course in 1996 (EBRD, 2013). A continuing credit expansionary support of inefficient SOEs along with the decline in the share of energy subsidies triggered by a drop in energy prices and recession in Russia, Belarus's key trade partner, threw the economy in the recession in 2015–2016 (Figure 2), triggering also an increase in external debt relative to GDP as a result of the Belarusian ruble devaluation (Table A1 Appendix A), and a disproportionately large share of external debt denominated in foreign currency.

2.3.2. Private sector developments

An attempt to restructure SOEs was accompanied by the authorities initiating some private sector developments which were expected (1) to smooth reallocation of labor from inefficient SOEs to emerging new firms and sectors, and (2) to emerge as a new driving force of productivity in

6 According to the EBRD (2013: 112), a large-scale privatization, and governance & enterprise restructuring transition indicators stayed at the level of '2-' on a scale from 1 to +4, remaining the lowest in the region except for Turkmenistan, performing even worse than Belarus, and Kosovo and Uzbekistan scoring the same as Belarus in the respective transition progress dimensions.

7 A sharp increase in FDI in 2007-2011 was primarily attributed to the sale of Beltransgaz, one of the Belarusian core strategic asset in natural gas infrastructure and transportation, to Russia.

the economy. Such initiatives have begun with the creation of High-Technology Park (HTP) in Minsk in September 2005, entitling its residents to tax incentives and other benefits, introduced gradually over the past decade. The HTP creation effectively marked the establishment of the Information and Communication Technology (ICT) industry in Belarus, taking grassroots in the mid-late 1990s with the birth of such new technology firms like *EPAM*, known these days as a world-leading software engineering & IT services company listed on the New York Stock Exchange, and growing to host new unicorn startups in the later years, including *VIBER*, a messaging app; *MSQRD*, social network service and video sharing mobile app, acquired by Facebook in 2016; *AIMatter*, a neural networks technology-based app for changing the background images, acquired in 2017 by Google; *ID FINANCE*, an international company with a development office established in Minsk, and specializing in credit scoring and data science, and so forth. The ICT sector's contribution to GDP has steadily grown over the past decade, reaching 5.5 percent of GDP in 2018 and projected (prior the start of the political crisis in late 2020) to reach 10 percent of GDP by 2023[8].

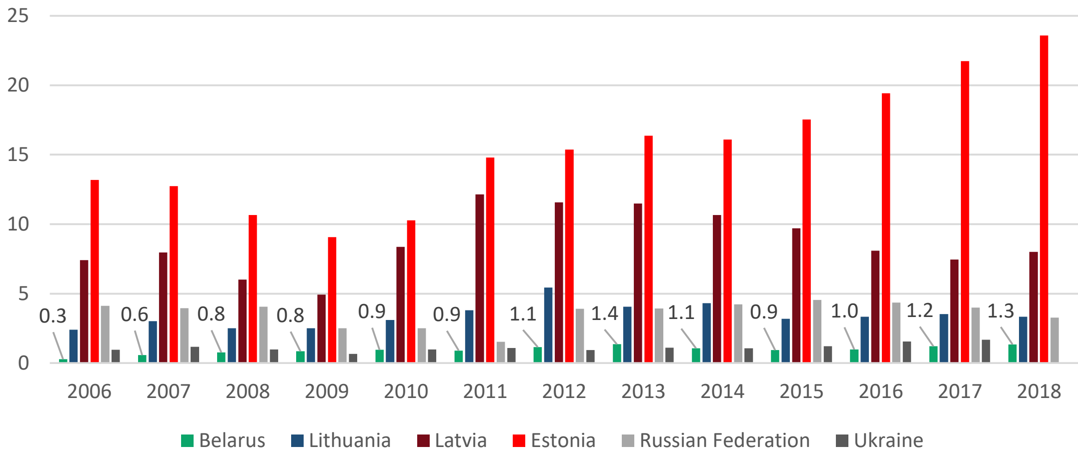
The private sector developments have continued with some business environment deregulation reforms over the period of 2008-2010, leading to the introduction of a one-day registration policy for enterprises and individual entrepreneurs from February 2009; simplification of liquidation procedures; lowering the rate of turnover tax by reducing it to 1 percent that altogether improved Belarus's Ease of Doing Business ranking at that time, moving it from the 82nd to 58th place in 2010. A new entry of firms was expected to be facilitated further with enactment of the decree on development of entrepreneurship in 2017, aiming to reduce the formalities linked to opening a new firm to submitting a single statement, without the need to apply for consent, and with the development of 'Great Stone China-Belarus' (GSCB) industrial and logistics park initiative launched in 2012 with special legal and regulatory provisions for residents and investors of the GSCB Industrial Park signed into the law in 2017.

Finally, the efforts taken in the direction of digital transformation of the economy with an enactment of the Presidential Decree No. 8 "On the Development of the Digital Economy" in March 2018 deserve special mentioning. This expanded a list of activities that HTP residents, operating on the boundaries of IT, finance, logistics and other industries, can engage in, allowing for a sharp rise in the park residents in 2018, including, among them, the first crypto-asset platform Currency.com which has enabled the exchange of fiat money for cryptocurrencies and provision of initial coin and tokenized securities offering services with potential to stimulate new firm entry via provision of alternative funding (Karachun et al., 2019).

While all these developments laid good foundation for the transformation and diversification of the Belarusian economy to be led by new technology firms, they were compromised with a political crisis following the Belarusian presidential elections in August 2020, and various structural rigidities inherited from the Soviet times and deepened under Lukashenka's rule. Under the current regime with a preserved heavy state intervention in the economy, there has overall been little progress observed in new business entry in Belarus compared to its CEB

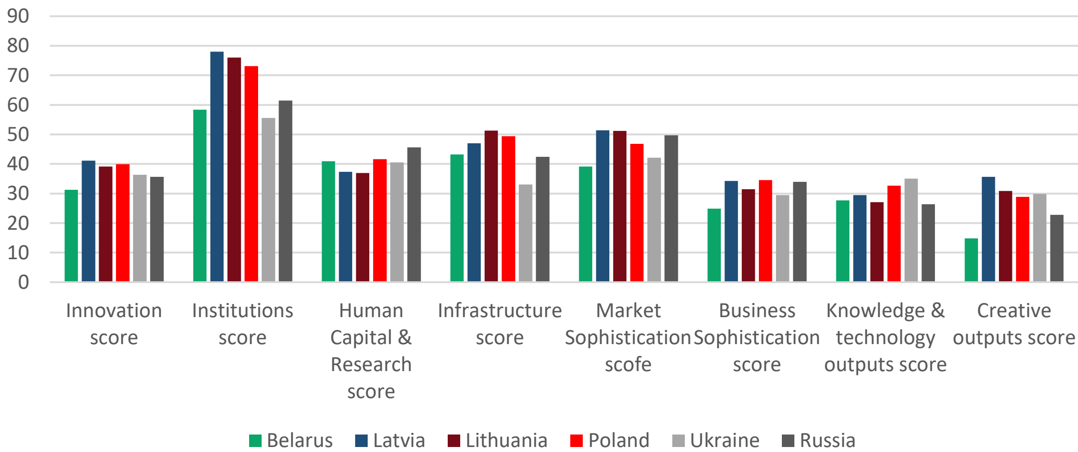
8 Foy, H., 2020. 'Belarus skilled population will be a boon if its economy opens', The Financial Times, available from https://www.ft.com/content/271acc0d-e821-4394-93d6-69f6ebe09872.

Figure 4: New business density (new registrations per 1,000 people ages 15–64)



Source: Word Bank WDI (2021a)

Figure 5: Innovation performance of Belarus, 2020



Source: WIPO (2020) The Global Innovation Index Report, available from https://www.globalinnovationindex.org

counterparts. The rate of registered new businesses in Belarus remains consistently low, barely surpassing one percent per thousands of people of working age (Figure 4).

Belarus's relative innovation capacity, assessed via Global Innovation Index also remains the lowest among its neighbors overall and within the majority of its dimensions (Figure 5). Belarus underperforms particularly in terms of institutional quality where the most concerns raise government effectiveness, the quality of regulatory environment, and rule of law; and within the business environment dimension of the institutional pillar – the cost of redundancy dismissal, and ease of resolving insolvency. Some other areas of concern include low Research and Development (R&D) capacity[9], not compatible with an economy pledged to become knowledge-based and technology-oriented; credit constraints underlying the underperformance of the market sophistication pillar; underdeveloped innovation linkages to enable an efficient technology transfer that remains the weakest link within the business sophistication pillar, and lack of intangible assets, such as trademarks, global brand names and so forth, constituting part of the creative pillar assessment (see also UNECE, 2017).

In sum, it is worth emphasizing that regardless inheriting fairly favorable initial economic conditions at the start of transition which jointly with preservation of some links with Russia allowed the Belarusian economy to bounce back in the mid-1990s and to grow spectacularly in the late 1990s–early 2000s, structural rigidities of the economy, accumulated over the past few decades and summarized below, have placed serious constraints on future economic growth. These include the following:

1. A dominant state control over the economy via asset ownership; cumbersome regulation; often controversial and retrospective legal changes; lack of independence of judiciary; allocation of resources have become a fatigue, throwing the economy into stagnation over the last decade. Although the share of the state in the economy has decreased over the past decades[10], the state preserves its dominant control over the banking sector with state banks owning around 2/3 of all banking assets in the country (Figure A2, Appendix A), and their share in lending to the real sector of the economy remains high, accounting for 70% during the period of 2018-2020 (EBRD, 2021). In their majority, SOEs remain inefficient in terms of their operation and dependent of state subsidies, constituting a burden for the economy as a whole (IMF, 2019b). With a few exceptions, they are locked on regional CIS market, and their innovation in-house activity as judged by their R&D expenditure remains fairly marginal to have any substantial impact on raising their competitiveness globally.
2. External debt has increased over the past decade, and it is primarily denominated in foreign currency, making the economy vulnerable to any external shocks. International reserves in proportion to gross external debt have declined, and they are also predominantly comprised of illiquid assets (see Figure A3, Appendix A; and Figure 8b).
3. Belarusian economy remains highly dependent on the Russian economy in part of energy and financial subsidies (IMF, 2019a). Russia also remains one of its major trading and investment partners, accounting for a majority share in its foreign trade and foreign direct investment (Figure A4, Appendix A).
4. While aging of the population remains a general trend characterizing the region as a whole, an age dependency ratio as a percent of working population remains among the lowest

9 R&D expenditure as percent of GDP decreased in Belarus from 0.72% in 2000 to 0.61% in 2018 (the latest R&D data available in WB WDI, 2021). In comparison, we observe a surge of R&D expenditure in neighboring Poland from 0.64% to 1.21%, and Lithuania from 0.58% to 0.94% in the respective time periods.

10 According to EBRD (2021) based on their Life in Transition Survey in 2016, employment in state-owned enterprises and public sector remained the highest in the region, accounting for over 60% of total employment. As of 2021 employment in SOEs has declined to below 30%, but jointly with public sector it accounts for 56 percent (See Figure A1, Appendix A).

in Belarus (Figure A5, Appendix A). However, the situation can be aggravated quickly by a fairly low fertility rate and a rolling migration crisis, triggered by the political unrest[11].

Overall, the past decade of stolen reforms in Belarus has led to stagnation of the Belarusian economy (Figure 2), and slipping behind its neighbors (Figure A6, Appendix A). Three decades since the start of transition, its standards of living have grown only two-fold compared to a nearly three-fold increase in Poland, seen as a contrasting example to Belarus regarding its transition experience[12] (Figure A7, Appendix A).

11 https://www.bloomberg.com/news/articles/2021-02-17/tech-brains-in-viber-birthplace-flee-belarus-leader-s-crackdown

12 Poland is an example of a post-socialist economy which underwent radical market transformation of the economy. Unfortunately, GDP per capita PPP series are missing for Lithuania and Latvia for 1990 in WB World Development Indicators that prevents making comparisons to neighboring Baltic states.

3. Contemporary developments

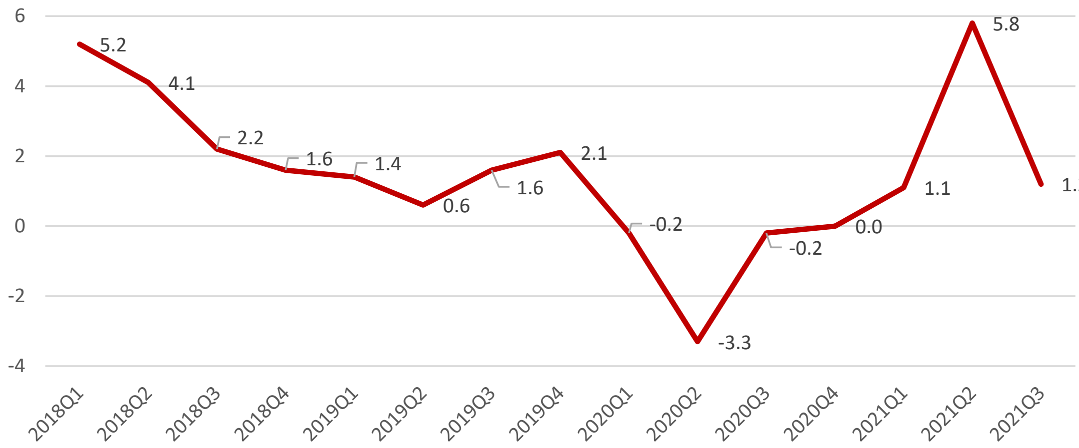
3.1. Early 2020s and the oil price saga

Belarus entered into 2020 without agreement on supplies of Russian crude oil and no agreement on gas prices. Since the end of 2006 political conflicts between Belarus and Russia over prices and other terms of supply of gas and crude oil, and also some important food products exported to Russia, happened repeatedly[13]. The gas dispute was temporarily resolved by signing the agreement to keep the price the same as in 2019 until the end of February 2020[14], which was later extended to the end of 2020[15]. However, from January till March 2020 Russia stopped the supply of oil to Belarus. Belarus lost not only on the lack of supplies of cheap Russian oil, but also it paid extra price for importing more expensive oil from alternative sources[16] to compensate for the shortage. This costed the Belarusian economy USD 0.6 bn which is equivalent to one percent of its GDP[17].

The key reason for such a clash between Belarus and Russia at the time was the tax maneuver that Russia had conducted since 2015 which resulted in phasing out energy subsidies to Belarus. In other words, the idea was to gradually increase a tax on oil extraction while decreasing duties on exports of crude oil and petroleum products to stimulate Russia-based refineries to refine crude oil in Russia instead of exporting it. Russia started the second phase of the tax maneuver in 2019. Between 2019 and 2024 the price of Russian crude oil was set to steadily rise, while the duties on export of petroleum products were to drop by 5 percentage points annually from 30 percent to 0 percent. It implied that Belarus would pay the market price for the Russian crude oil starting from 2024. Hence, the tax maneuver that was invented primarily to solve the Russian domestic problems, indirectly had been leading to the end of oil subsidies for Belarus. The cumulative losses of Belarus attributed to the change in terms of trade on imports of Russian oil in 2019–2024 under the projected global oil prices at that time (at ca. USD 60 per barrel) were expected to exceed USD 9 bln (ca. 15 percent of Belarus's GDP in 2019) (IPM, 2019)[18].

13 https://www.gazeta.ru/business/2019/05/16/12358003.shtml
14 https://carnegiemoscow.org/commentary/80905
15 https://ria.ru/20200214/1564777278.html
16 In particular, Belarus imported oil by sea and then by railways from Saudi Arabia, Norway, Azerbaijan and even the USA, as well as from smaller Russian suppliers which provided the supplies by more expensive ways of logistics – by sea and/or railways instead of pipelines.
17 https://caspiannews.com/news-detail/oil-dispute-with-russia-costs-belarus-600m-in-losses-2020-8-5-36/
18 Similar estimations were reported by Fitch (2019), estimating the losses at USD 10.6 bln based on oil prices at ca. USD 70 per barrel.

Figure 6: Real GDP growth rate, yoy quarterly



Source: National Bank of the Republic of Belarus (2021)

Overall, the attempt of Minsk to force the Kremlin to compensate Belarusian oil refineries for the incurred losses, failed. As a result, real GDP contracted by 0.2 percent yoy in the 1st quarter of 2020, compared to 2.1 pecent growth in the 4th quarter of 2019 (Figure 6). This marked the start of the third economic crisis of the last decade, following the first one in 2011, and the second one in 2015-2016 (Figure 2).

3.2. The mismanagement of the Covid-19 outbreak as a first trigger of an uproar in Belarus

Just before the Russia-Belarus oil disputes were resolved, the Covid-19 pandemic outburst. However, Minsk chose a very controversial strategy of dealing with the pandemic. The authorities preferred to ignore the problem, not shutting down the production, but rather sacrificing lives of people. Despite all the attempts of the Belarusian authorities to misrepresent true statistics of deaths attributed to the Covid-19 pandemic[19], the real numbers were much higher, making Belarus the 4th country in the world with the highest difference between the excess mortality and officially reported Covid-19 deaths, after Tajikistan, Nicaragua and Uzbekistan[20]. Undoubtedly, such a large discrepancy in statistics strongly suggests purposeful underreporting or misdiagnosing of Covid-19 deaths.

Central and local authorities in Belarus introduced hardly any restrictions to minimize the spreading of the virus. Apart from that, the state decided not to support private businesses dur-

19 As of October 17, 2021, in Belarus 4, 402 people were officially reported dead due to the Covid-19 outbreak.

20 According to Karlinsky and Kobak (2021) by June 30, 2020 the excess mortality in Belarus during the Covid-19 was 14.5 higher than the officially reported Covid-19 death count.

ing the pandemic. Only the designated SOEs were able to receive any significant public support. Despite the chosen strategy, the economy was hit by the pandemic, mainly via two channels: the decrease of external demand and the drop in human mobility, as many people decided to take care of their health on their own (Bornukova et al., 2021). This led to a drop in real GDP by 3.3 percent yoy growth in the 2nd quarter of 2020 (Figure 6).

3.3. The dark before the dawn: the 2020 political crisis, sanctions and gradual economic fallout

The next blow to the economy were the presidential elections, held on the 9th of August 2020. They were rigged on a massive scale, triggering a severe political crisis and marking a new chapter in the Belarusian history. Never in the past three decades has Belarus seen such strong mobilization and solidarity among people. While the consolidation of people was natural and growing following the mismanagement of the Covid-19 crisis, various social platforms and channels helped to facilitate Belarusian people's integration and coordinate their actions during the strikes, also mobilizing the Belarusian diaspora.

The brutal suppression of peaceful protests and massive violation of human rights triggered a sanctions response from the international community, toughened with the escalation of the political crisis when the regime crossed the red line after hijacking the plane with an opposition activist, Roman Protasevich on board in May 2021. Sanctions were introduced by over 40 countries, including the US, EU, UK, Canada, Switzerland, Norway and other countries. Among those which were expected to have an economic impact were a set of trade, financial and aviation sanctions; blocking sanctions against selected entities; sanctions against wealthy business owners (so-called Lukashenko's 'wallets'); sectoral sanctions, targeting among others the largest Belarusian exporters of chemical and petrochemical products. Although not without their loopholes[21], economic sanctions posed a long-term challenge, forecasted to slush up to 10 percent of GDP in the period of 4–10 quarters from the moment they came into force[22].

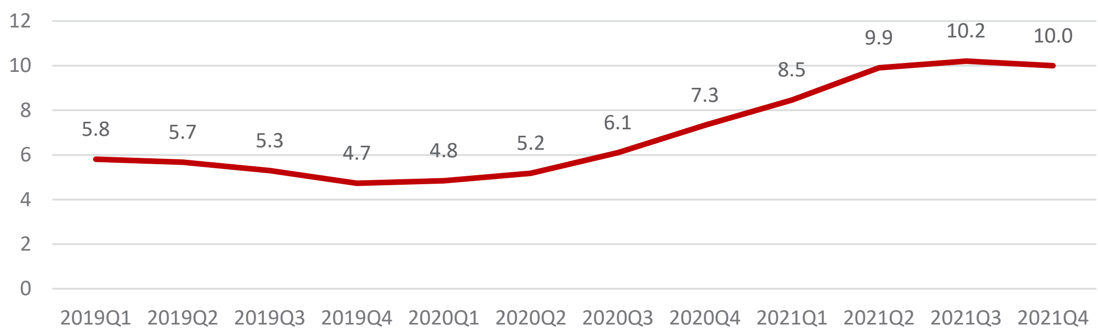
While a long-term effect of economic sanctions was still to materialize after US and EU sectoral sanctions came into force, some of their impact was already observed, starting from September 2021. After Belarusian Automobile Plant (BelAZ) and Minsk Automobile Plant (MAZ) were subjected to the fourth package of the EU sanctions, key western component and engine suppliers ceased cooperation with these flagmen of the machinery industry in September 2021[23]. The same month, the British-American Tobacco suspended manufacturing of its brands in Belarus, expressing concerns of the links of the Neman Belarus Tobacco factory with the re-

21 For example, the EU sanctions imposed on the Belaruskaly potash plant apply to around 15 percent of its exports to the EU market, and they did not apply to EU firms signed the supply contracts prior they came into force on the 25th of June (source: https://www.theguardian.com/world/2021/jun/30/belarus-opposition-calls-on-eu-to-close-sanctions-loopholes).

22 BEROC's estimation based on Belarus-Russia expert dialogue on the 17th of September 2021, available from https://www.youtube.com/watch?v=nIP_oB0PvfM.

23 https://www.e-mj.com/breaking-news/belaz-feels-the-string-of-international-sanctions/

Figure 7: Inflation rate, yoy quarterly



Source: Belstat (2021)

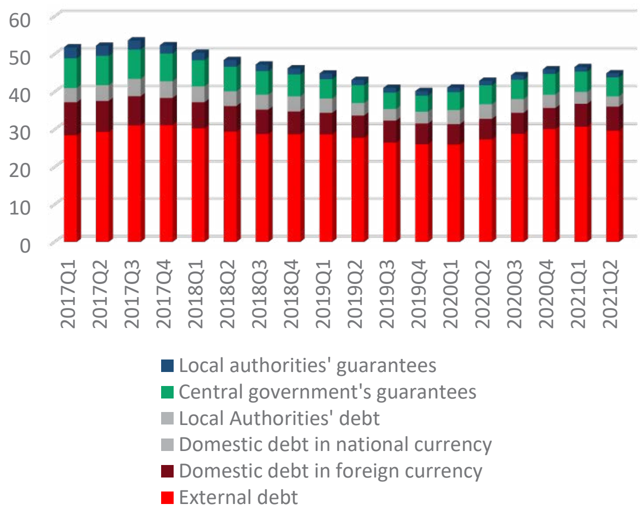
gime[24]. The US international rating agency Fitch withdrew its ratings to two state-owned banks Belarusbank and Belinvestbank, subjected to sanctions[25]. Deutsche Bank closed correspondent accounts for Belarusian banks in September 2021[26]. All this exacerbated vulnerability of the banking sector, in particular in part of funding and liquidity positions.

Regardless the deepening of the political crisis, in 2021 the Belarusian economy surprised again with a fast recovery from the post-Covid-19 recession and a surge in economic growth in the first two quarters of 2021 (Figure 6), attributed to net export increase driven by the world prices upswing in raw materials and commodities markets. Nevertheless, in light of declining economic growth (Figure 6), growing inflation (Figure 7) and vulnerable public debt position (Figure 8a and 8b), the Belarusian economy in 2022 is expected to fall in recession (World Bank, 2021b).

The orchestrating of the migration crisis on the border with Poland and the Baltic states in 2021 and continued abuse of human rights in Belarus triggered a new wave of sanctions with the EU adopting its fifth package in early December 2021, targeting the members of the judiciary and the representatives of the propaganda outlets, and a number of companies from tourism industry, and the national airline company Belavia, which were instrumental in inciting illegal border crossings through Belarus to the EU. Some other Western countries also joined the EU sanctions. Furthermore, in light of some trade constrains due to international sanctions, on January 10, 2022 the Norwegian fertilizer company Yara and one of the key trading partner of Belaruskali announced its plans to stop purchasing potash from Belarus starting from April 1, 2022. Two days later the Lithuanian government decides that Lithuania Railways should ter-

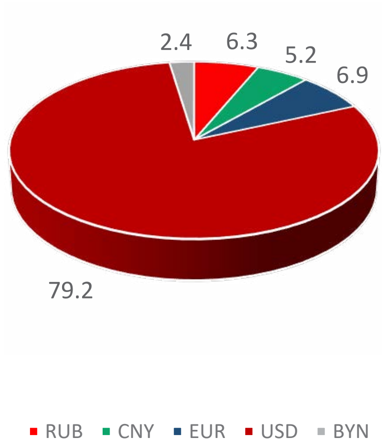
24 https://inews.co.uk/news/british-american-tobacco-belarus-production-us-local-manufacturer-lukashenko-regime-1197565.
25 https://belsat.eu/en/news/23-08-2021-fitch-withdraws-ratings-for-belarusbank-belinvestbank-in-light-of-sanctions/.
26 https://nashaniva.com/?c=ar&i=277866&lang=ru

Figure 8a: Public debt, quarterly average, % of GDP



Source: BEROC, Economic Overview, Q2 2021, https://beroc.org/upload/iblock/3d4/3d425d54eeac6f757ad33c0b55109c69.pdf

Figure 8b: Public debt, composition by currencies as of January 1st, 2021



Source: Ministry of Finance, https://www.minfin.gov.by/upload/gosdolg/publication/report_2020.pdf

minate the contract on transporting Belarusian fertilizers across the country from February 1, 2022. The Russia's invasion into Ukraine since late February has further aggravated the economic situation in Belarus due to a new wave of even tougher sanctions, lost exports to Ukraine and reduced exports to Russia affected by the unprecedentedly tough Western sanctions. In particular, together with the previous sanctions, the EU and the US have banned the supply of 2/3 of the Belarusian exports to these countries (based on exports value for 2021). The UK, USA, Canada and Australia have deprived Belarus of the most-favoured-nation treatment, which will increase tariffs on Belarusian exports to these countries (e.g., in the case of Canada, this means 35% duty on Belarusian goods). Due to the war, Belarus lost supplies to Ukraine, to which it sent 13.6% of the exports value in 2021. As a result of the war and sanctions, Belarusian exports could be reduced by about 40%, which is concerning given that Belarus is an open economy, highly dependent on trade. This military conflict places serious constraints on future economic performance of Belarus.

4. Future economic reforms[27]

4.1. Pre-requisites for successful economic reforms

Under the current geopolitical crisis, Belarus finds itself at a crossroads in history with its future development being highly dependent on the outcome of the Russia-Ukraine war in the first place. If the war prolongs for long, this will continue further precipitating the downfall of the Belarusian economy. The longer it lasts, the costly is a post-war recovery going to be for any parties involved in this conflict. Nevertheless, we expect an economic fallout, aggravated by the Western sanctions, to bring inevitable collapse of dictatorial regimes in Belarus and Russia.

Economic reforms to follow in Belarus should be the outcome of inclusive national dialogue, which would be impossible without free and democratic elections, and should reflect the values and aspirations of its people. While it has been debated for some time to what extent the Belarusians would like to see the state playing a reduced role in the economy, more recent survey data suggests that Belarusians view the private sector and entrepreneurship as sources of economic growth and see the role of the state primarily as a provider of public goods such as healthcare and education (Rudkouski 2021; Thinktanks.by 2021). On average, Belarus's population is well-educated and creative, and it has high potential to unleash its entrepreneurial spirit to place Belarus on a new entrepreneurial path of economic development in which a significant role is played by new technology firms.

It is essential for a new government to communicate clearly to the society the vision of reforms, their timing and sequence, benefits and costs, chances and challenges prior launching the reforms, as failing to do this was one of the main mistakes of many reformers in post-socialist countries (Guriev 2019). Meaningful economic reforms are more likely to succeed if the judicial system is also reformed at the same time. The latter will be key to defending the foundations for economic growth – human rights, property rights protection and contract enforceability.

In general, Belarus's experience of economic transformation should be smoother compared to its counterparts in the early 1990s. As a laggard in reforms, it can learn from the mistakes of other transition counterparts and adopt best practices. One of largest concerns anticipated in reforming the economy is a reform of the public sector. Belarus has much smaller share in the economy than three decades back, making public sector less challenging. Finally, a private sector, which accounts for nearly 50 per cent of the country employment, is dominated by relatively healthy and competitive firms that could help facilitate SOE restructuring, absorbing some job

27 This section is based on the Chatham House policy paper (Bornukova & Alachnovič 2021).

reallocations. However, the smoothness of reforms depends on the state the economy after the Russia-Ukraine war and the attitude of Russia towards Belarusian democratisation and economic liberalisation (Hartwell et al. 2022). Further below we consider key aspects of economic reforms Belarus will have to undergo.

4.2. Macroeconomic stabilization

In the first place, for a successful economic transformation, for Belarus it is essential to undergo macroeconomic stabilisation and institutional reforms that jointly will help addressing structural rigidities identified earlier. Declining economic growth, rising inflation, and mounting public debt all have adversely affected macroeconomic stability in Belarus. Drying up of international funding in the light of the imposed economic sanctions, an outflow of households' deposits in foreign currencies and growing non-performing loans (NPLs) of SOEs may trigger a severe banking crisis[28]. The following immediate actions should be considered to guarantee macroeconomic stability:

1. **Establishing legal foundation of the central bank independence**. The National Bank of Belarus has to be granted institutional, functional, personal and financial independence to achieve its objectives of low and predictable inflation and of financial sector stability[29].
2. **Reforming the banking sector and tackling the problem of bad loans of SOEs**. Maintaining the financial stability of the Belarusian economy depends on resolving the problem of debt problem of SOEs and preventing their consequences if an unresolved political crisis leads to a worsening of the economic situation in the country. Belarus might adopt the successful case of Slovak banking sector "cleaning" in 1999–2000 when NPLs were transferred in instalments to a newly established specialized bank in exchange of the government bonds and with support of international financial institutions (Naūrodski & Šramko, 2021). This would need to be supported by endowing the NBRB with the power of a mega-regulator, i.e. making it both regulation and supervision institution for the financial market; and introducing transparent and effective (both in terms of time and costs) legal bankruptcy procedure. In a longer run Belarus should open the banking sector to foreign investors to facilitate privatization of state-owned banks.
3. **Fiscal policy support for structural reforms, targeted social protection and fiscal consolidation**. The authorities will need to reduce the cost of maintaining the state apparatus, to transit to medium-term fiscal management and to introduce fiscal rules with a view to ensuring due support for structural reforms while sustaining public debt. At the same time, authorities must phase in mechanisms for fiscal transparency and the accountability of the budgetary process, reduce tax evasions and close fiscal loopholes (for example, numerous VAT and other tax reliefs as well as unreasonable benefits and preferences for individual entities established by the regime).

28 SOEs were responsible for 77.6 percent of overdue loans in 2020 (Belstat, 2021).
29 For more detail on central bank independence see Yves Mersch (2019).

4. **Managing and sustaining public debt**. Belarus will need to refinance the public debt at a lower interest rate and for longer periods to reduce the debt burden on the budget and free up significant funds. Extending the loan terms with deferred repayment for the first few years of reform will provide additional savings for the budget. To facilitate this a high--level creditor meeting should be held with the participation of the international financial institutions and governments.

4.3. Economic liberalization and private sector development

The private sector has developed rapidly in Belarus in recent years despite the high regulatory burden, unfair competition, and the risks of facing politically motivated criminal prosecutions. The government should change its role in the economy from being one of the players to being the referee. The following reforms will help unleash private-sector potential and make it the driver of economic recovery and prosperity:

1. **Ensuring competitive neutrality through the restructuring of state governance and SOEs**. Providing equal treatment for private and public sectors in regulation, public procurement, access to loans and other aspects is essential in this respect.
2. **Revising existing regulations and tax reform, including tax administration**. Further decriminalizing of minor economic offences; reforming oversight bodies to minimize inspections and associated sanctions; introducing a moratorium on SMEs inspection for up to three years; reducing the fiscal burden on business and labor, including social security contributions via a shift towards consumption and wealth taxes; removing price controls and administrative market barriers should be priority measures here.
3. **Ensuring and promoting the development of financial markets** should envisage reforming the banking system; revitalizing the stock market, boosting it through wider application of International Financial Reporting Standards in the enterprise sector, SOE restructuring and the development of a fully funded pension system; encouraging foreign capital inflow by creating favorable and stable conditions for doing business; creating infrastructure for the development of venture capital; and tapping into FinTech opportunities.
4. **Creating entrepreneurial and start-up infrastructure to support nascent high-tech businesses and entry of individual entrepreneurs** could be tackled efficiently via promoting development of incubator parks; provision of consultancy and training grants; loan guarantee schemes for start-ups; R&D tax reliefs to encourage innovation; and facilitating a practice-based entrepreneurial and business education in high schools and higher education institutions).
5. **Supporting internationalization and trade diversification through accession to WTO and trade liberalization with the EU**. The following steps could be taken in this direction: adopting the partnership priorities between the EU and Belarus; reviewing numerous EU trade restrictions for Belarusian goods and services (in particular, with focus on unilateral liberalization by the EU of exports of services from Belarus); developing and signing

Comprehensive and Enhanced Partnership Agreement between the EU and Belarus that would also comply with Belarus' membership in the Eurasian Economic Union (here, it is worth considering the examples of the agreements signed between the EU and Armenia, when Armenia was already a member of the Eurasian Economic Union) or Deep and Comprehensive Free Trade Area (signed between the EU and Georgia, Moldova and Ukraine).

6. **Implementing a program to encourage return of businesses operated by Belarusian migrants overseas** that will include, among other things, concessional lending, facilitated access to unexploited real estate under state control, and free financial assistance to restart business activity in Belarus.

4.4. Restructuring and privatization of state-owned enterprises

In 2020, large and medium-sized SOEs provided 28.7 percent of overall employment in Belarus, down from 37.2 percent in 2012[30]. International organizations and independent think-tanks have singled out inefficient SOEs as the major reason for sluggish economic growth (IMF, 2019b). Moreover, the implicit or explicit preferential treatment given to SOEs led to the crushing of competition and impeded efficient resource distribution. SOEs are also a source of corruption, creating inefficiencies and the wrong kind of incentives. The path to SOEs' restructuring could start from taking the following measures:

1. **Creating a single government body in charge of SOEs management and restructuring.** Currently the de facto management of SOEs is scattered across sectoral ministries and the State Committee on Property, making an overall assessment of the sector impossible and related problems less visible.
2. **Evaluating and classifying all SOEs through financial audit procedures to understand their viability and divide them into three groups**: (i) viable and financially stable SOEs; (ii) SOEs in need of financial support but able to become solvent; and (iii) insolvent SOEs.
3. **Designing individually tailored measures to restructure the largest and most significant SOEs** (around 100 companies currently on the list of strategically important enterprises).

As for small and medium-sized SOEs located in large cities, they could be either privatized or liquidated without delay. In particular, this concerns SOEs in services sector like retail trade, transportation and warehousing, accommodation, food services, entertainment and recreation. Belarus already has a large enough private sector that could absorb and effectively use released assets and labor as a result of this restructuring.

As for large, strategic enterprises the privatization will take time. Firstly, many of them will become more attractive for investors once proper incentives and corporate governance policies are implemented, the administrative and tax burdens as well as the extent of cross-subsidization are reduced, and corruption risks eliminated. Secondly, restructuring for many of them will mean employment contractions, therefore this should be delayed until new mechanisms of social sup-

30 See IPM, 2020 for data in 2012-2019 and https://t.me/KEF_by/202 for data in 2020.

port and active labor market policies have been developed. Finally, gradual restructuring and privatization will allow for proper auditing, anti-monopoly evaluation, and individual approaches for each large enterprise. Thirdly, privatization based on sale (in particular, to a strategic investor) is better than privatization based on the distribution or transfer of an enterprise or assets to scattered owners (e.g., voucher privatization in Russia or Czechia in the first half of the 1990s, the capture of enterprises by "red directors" in various countries of the former USSR or the transfer of the enterprise to the ownership of labor collectives)[31]. Obviously, finding a strategic investor takes more time than mass sale, distribution or transfer of large enterprises. Fourthly, privatization of SOEs will also work in synergy with the reform of the financial markets (as well as restructuring of the state-owned banks whose loan portfolios are linked to other SOEs).

4.5. Redefinition of the state's mission

The role of the state in the economy should be redefined: instead of picking winners and combining regulation and ownership roles, it should focus on building inclusive institutions and providing public goods. The government can provide a supporting role for building up an entrepreneurial state via strategic and mission-oriented investment in tackling grand societal challenges and co-creating new markets which would otherwise be considered as too risky-undertakings for private firms (Mazzucato, 2013). Establishing the rule of law, efficient judiciary, and functional political institutions are a prerequisite, and decentralization of major government functions would help build transparency, accountability and trust in these institutions. Further reforms should focus on the following:

1. **Reforming education with a focus on a growth mindset, creativity and entrepreneurial skills while preserving the inclusivity of this public service**.
2. **Reforming healthcare with a focus on a patient-centric approach**.
3. **Decentralizing decision-making, including by giving local authorities more powers and more flexibility on spending decisions**. This is a reform that has delivered great results in other countries in the region (e.g., Poland, Slovakia and Ukraine).
4. **Promoting innovation through support for science and R&D tax relief schemes, as well as technology transfer development and innovation infrastructure**.
5. **Conducting productive development policies, including digitalization and investment in renewable energy**. The latter will provide an additional source of economic growth and contribute to the diversification of energy sources and energy security. In addition, facilitating a green transition through participation in the EU and other Western policy initiatives that promote a sustainable and circular economy, reduction in carbon emissions, and support for Belarusian exporters in becoming better prepared for trade and investment opportunities offered by the European markets in the age of the European Green Deal.

31 Kornai, J. (2001). "Ten Years after The Road to a Free Economy: The Author's Self-Evaluation." In Annual World Bank Conference on Development Economics 2000, edited by Boris Pleskovic and Nicholas Stern, 49–66. Washington, DC: World Bank.

4.6. Efficient social support policy

Reform of the social support system would be especially important to absorb the impacts of SOE sector restructuring, which may include:

1. **Introducing unemployment insurance/benefit schemes.** This expansion of unemployment support should be accompanied by an expansion of active labor market services, retraining and reskilling programs.
2. **Expanding existing targeted social assistance to the most vulnerable groups by extending the longevity and increasing the minimum size of benefits**.
3. **Sustaining the pension system, including through the introduction of a fully funded component**. Initial funding for a fully funded component could come from the proceeds of privatization. However, further parametric reforms, including the gradual raising of the effective retirement age, may become necessary.
4. **Addressing demographic challenges.** This can be achieved by redirecting childcare support away from benefits supporting long parental leave to supporting public (and private) childcare and offering Belarusian parents an option of combining childbearing with active labor market participation. Other actions to consider include supporting and promoting gender equality in the labor market, including through anti-discrimination legislation; introducing smart migration policies, focused on attracting the diaspora; reducing male mortality through a comprehensive set of policies that promote a healthy lifestyle.

5. Conclusion

Three decades after the transition experiment began, Belarus remains the least transformed economies in the region with the state preserving its dominant control of the economy via bank asset ownership and allocation of the resources, employment provision and burdensome regulation. The chosen ‘status-quo’ strategy at the start of transition aimed at preserving economic links with Russia, public and quasi-public credit-led economic growth policy, jointly with Russia’s subsidies, helped avoid a sharp output contraction at the early transition, minimize social losses and make the economy boom over the decade prior the global financial crisis.

However, the model of state capitalism with prevalent rent-seeking practices to benefit the political elite, and delayed economic reforms have led to accumulation of a number of structural rigidities, driving the economy into stagnation post-2008. The Covid-19 pandemic, the 2020 post-presidential political crisis and Russia’s invasion of Ukraine put further strains on the economy, calling for a change.

While back in the middle 1990s, Belarusians were not ready for market reforms, in their majority they have embraced them heart willingly now by seeing clear benefits of private ownership and a healthy competitive environment. The role of the state should be re-focused on building inclusive institutions and providing for the public goods and effective social care support; promoting innovation via creating incentives for private R&D investments, technology transfer development and innovation infrastructure, tackling grand societal challenges and facilitating the emergence of new markets. Without radical economic reforms, Belarus expects stagnation and slipping further behind more developed economies of the region. Market reforms will create conditions for stable economic development and improvement of the quality of life in Belarus, reducing its dependence on Russian energy subsidies and foreign debt. The speed and success of the reforms depend a lot on the resolution of the current political crisis in Belarus and the military conflict in Ukraine.

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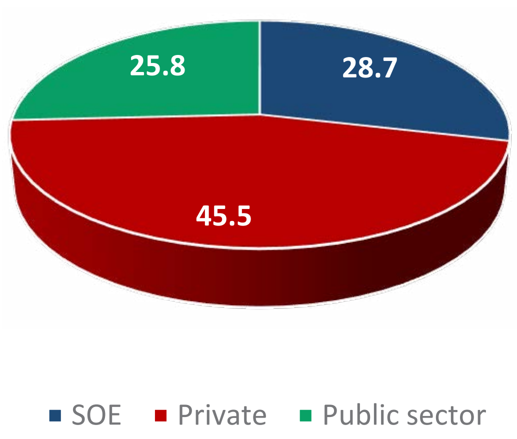
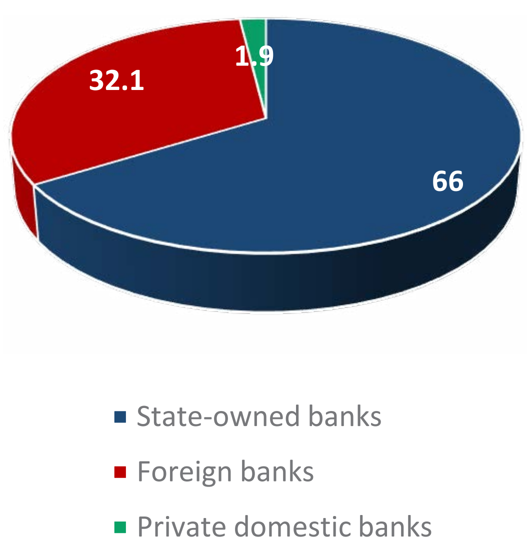
Appendix A

Figure A1: Employment structure of the economy by ownership type in 2020, %



Source: IPM, Belstat, 2021

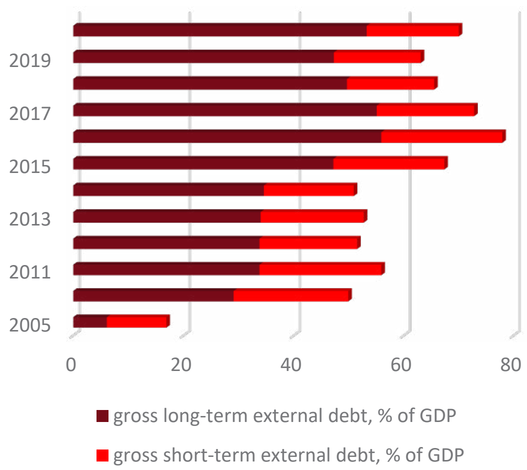
Figure A2: Bank asset structure by ownership type as of 01/07/2021, %



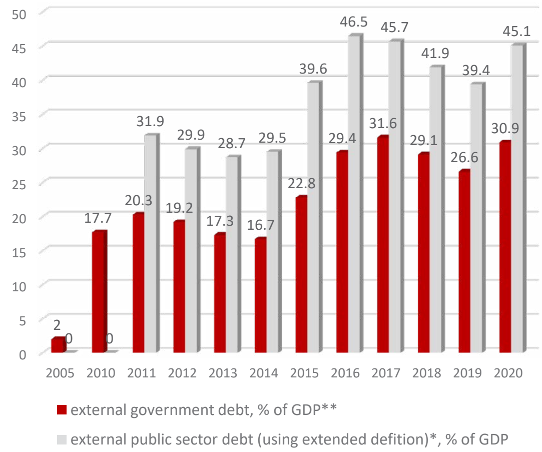
Source: National Bank of the Republic of Belarus (NBRB), 2021

Figure A3: External debt indicators & debt service

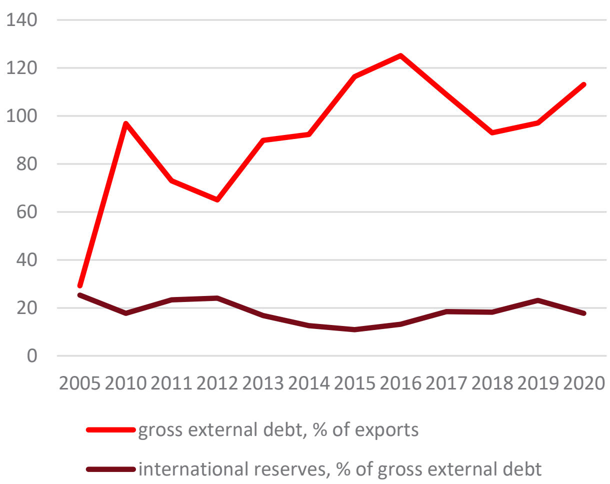
Gross external debt by duration



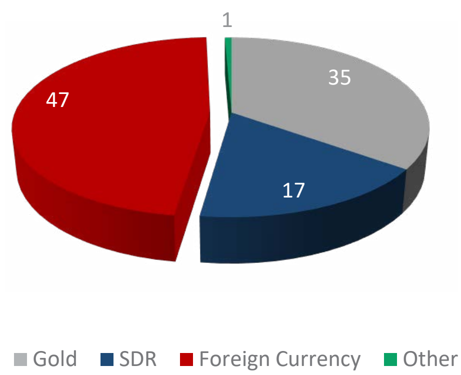
Net external public sector & government debt



Gross external debt in relation to export and international reserves



A structure of international reserves as of October 1st, 2021, %



Source: NBRB, 2021, available from https://www.nbrb.by/statistics/externaldebt; data on international reserves is available from https://www.nbrb.by/statistics/reserveassets/assets.asp

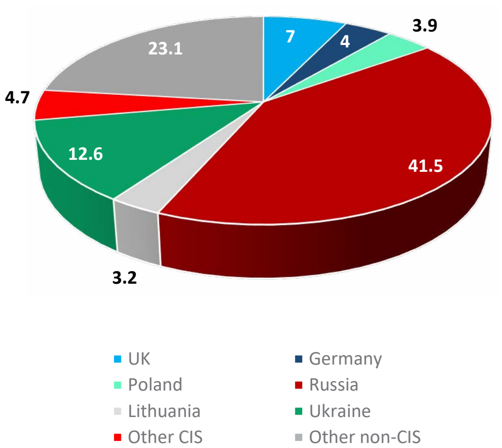
Figure A4: Belarusian Foreign trade composition by key partners, 2019, %

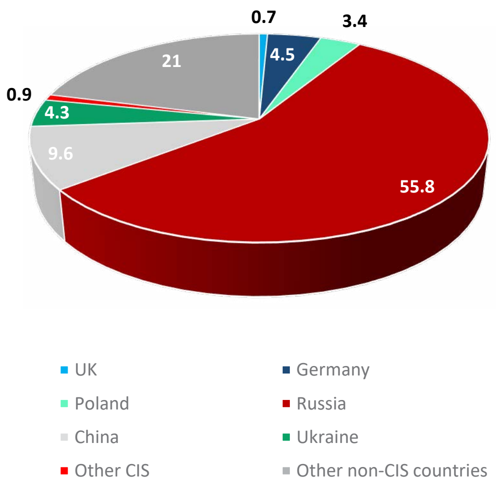
Export shares by key trading partners:

- Non-CIS countries – 41.1%
- CIS countries – 58.9%

Import shares by key trading partners:

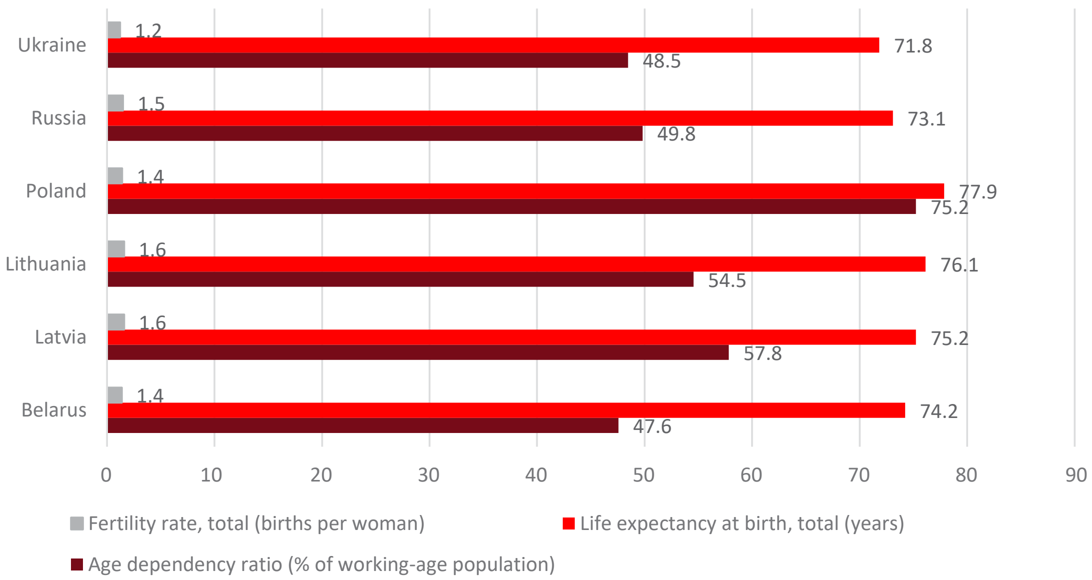
- Non-CIS countries – 39%
- CIS countries – 61%





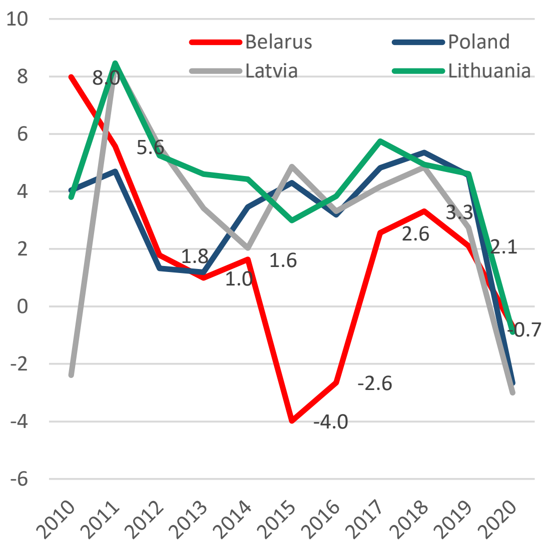
Source: Belstat, 2020

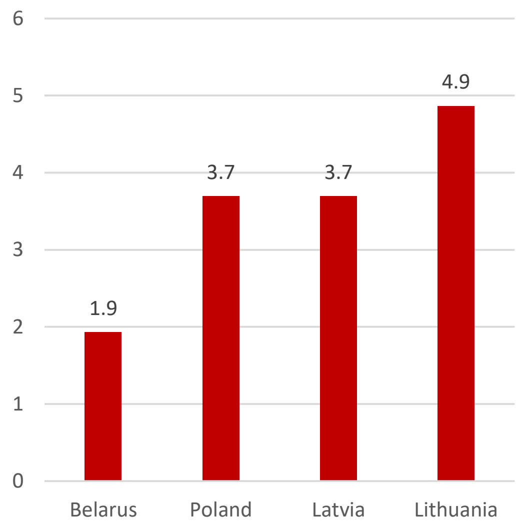
Figure A5: Demography statistics: Belarus comparing to neighbouring CEB countries, 2019



Source: World Bank, 2021a [accessed 15/10/2021]

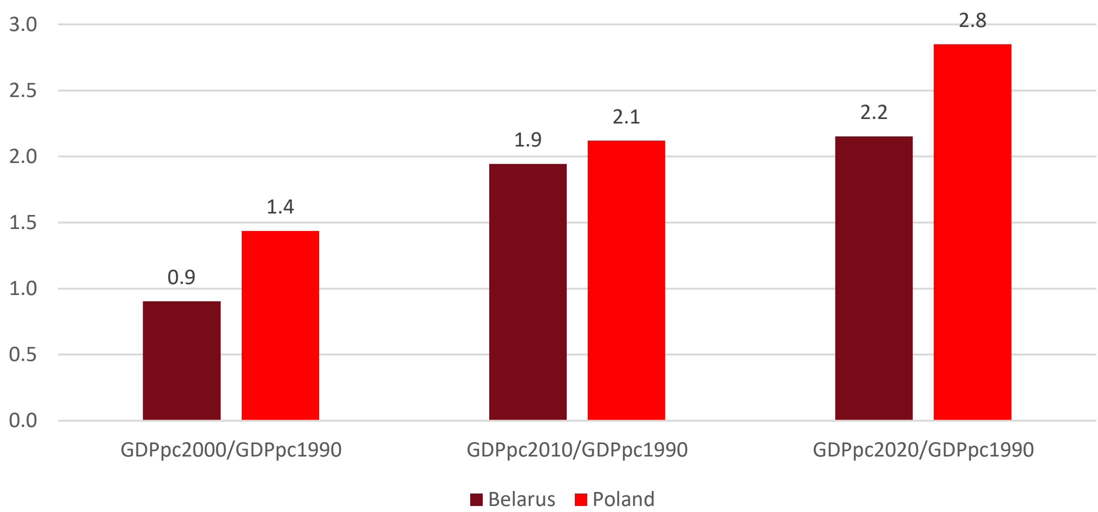
Figure A6: GDP per capita growth rates in Belarus comparing to neighboring CEB countries, 2010–2020





Source: World Bank, 2021a [accessed 28/09/2021]

Figure A7: GDP per capita ratios at purchasing power parity (PPP, constant 2017 international dollars): Belarus and Poland compared



Source: World Bank World Development Indicators [accessed 28/09/2021]

Table A1: Key macroeconomics indicators, 1995–2020

Indicators	1995	2000	2005	2010	2015	2020
GDP per capita growth (annual %)	-10.1	6.3	10.1	7.98	-3.98	-0.7
GDP per capita, PPP (constant 2017 international $)	5805.3	8053.2	11940.2	17288.4	18307.5	19148.2
Final consumption expenditure (% of GDP)	79.6	76.4	72.8	71.7	67.8	68.4
Exports of goods and services (% of GDP)	49.7	69.2	59.8	51.4	58.0	61.9
General government final consumption expenditure (% of GDP)	20.5	19.5	20.8	16.0	14.9	16.9
Gross domestic savings (% of GDP)	20.4	23.6	27.2	28.3	32.2	31.6
Gross fixed capital formation (% of GDP)	24.7	25.2	26.5	38.8	28.6	24.8
Gross capital formation (% of GDP)	24.7	25.4	28.5	40.7	29.0	26.3
Industry (including construction), value added (% of GDP)	33.4	33.5	37.8	35.4	32.7	31.3
Research and development expenditure (% of GDP)	..	0.7	0.7	0.7	0.5	..
Income share held by lowest 20%	..	7.9	8.9	8.8	9.7	10*
Income share held by highest 20%	..	39.1	36.5	37.5	35.5	35.4*
Current account balance (% of GDP)	-3.4	-3.6	1.5	-14.5	-3.2	-0.4
Foreign direct investment, net inflows (% of GDP)	0.11	0.9	1.0	2.4	2.9	1.98*
Poverty headcount ratio at national poverty lines (% of population)	..	41.9	12.7	5.2	5.1	4.8
Total debt service (% of exports of goods, services and primary income)	3.4	5.5	3.96	5.9	14.9	11.3
External debt stocks (% of GNI)	12.6	20.7	17.6	50.6	70.9	73.7
Inflation, GDP deflator (annual %)	661.5	185.3	18.97	11.3	16.0	10.1

Source: World Bank World Development Indicators, 2021 [accessed 17/11/2021].

Note: * shows the last year (2019) for which this series is available