Belarus Economy Monitor: trends, attitudes and expectations

EXPERT OPINION

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Summary

- **IMBALANCES ARE ACCUMULATING IN BELARUS LABOR MARKET**

The labor market in Belarus remains challenging. A severe shortage of skilled labor, particularly in manufacturing and construction, is forcing employers to raise wages and compete to retain workers. Workforce migration abroad and demographic trends have become pressing issues for the labor market.

- **FOREIGN TRADE AND FOREIGN EXCHANGE MARKET: STATUS, RISKS, AND OUTLOOK**

In 2020-2022, Belarus experienced an unusual trade surplus, driven by the global post-pandemic economic recovery and the effects of sanctions. However, this surplus disappeared in 2023. The main factors behind the worsening trade balance are rising domestic demand and increased imports, weaker export dynamics due to weakened demand from Russia, and deteriorating terms of trade. In 2024–2025, Belarus is likely to face a trade deficit, which could increase pressure on the Belarusian ruble and lead to economic deceleration.

- **FINANCIAL CONDITION OF COMPANIES: WHAT PROBLEMS DO THEY FACE AND HOW DO THEY OVERCOME**

The financial situation is becoming more strained for many companies, driven by rising costs and challenges in external markets. However, Belarusian businesses are showing resilience, allowing them to maintain stability and find new revenue sources despite the uncertainty. Companies report that they have “found the bottom” and adapted to operate amid ongoing difficulties.

The Expert Opinion Bulletin (“Belarus Economy Monitor: Trends, Attitudes, Expectations”) presents a subjective expert review of the key short-term trends in the Belarusian economy. Each bulletin issue selects three key trends based on a survey of three experts: the BEROC staff members and third party experts. The summary captures these trends, as well as the expectations of the three experts interviewed for future economic dynamics. The body of the bulletin provides individual expert opinions on one of the challenges, their expectations and situation development scenarios.

IMBALANCES ARE ACCUMULATING IN BELARUS LABOR MARKET

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Record-low unemployment and labor shortage

The labor market situation in Belarus continues to worsen. Over the past year, from August 2023 to August 2024, the number of employed individuals in the economy decreased by 32.5 thousand people. Despite layoffs outpacing new hires, the unemployment rate dropped to a record low of 3%.

Belarus has traditionally seen low official unemployment, a feature tied to the specifics of its system. Unlike in many countries where unemployment benefits act as an automatic business-cycle stabilizer and provide financial support to citizens, Belarus's unemployment benefits system is mostly nominal. In practice, unemployment benefits are so minimal that they do not incentivize people to register for this status. Moreover, official registration as unemployed comes with additional obligations, making the status unattractive. As a result, many Belarusians, even during economic crises, prefer to accept significant pay cuts to avoid being laid off.

The concept of natural unemployment suggests that at any given time, a certain percentage of the population will be temporarily unemployed due to job searching or retraining. In countries with a highly educated population, like Belarus, a natural unemployment rate between 4–6% is considered normal. However, the current situation in Belarus is unusual, with unemployment staying below this level, largely due to a labor shortage.

This imbalance is driven not only by demographic shifts related to an aging population but also by sustained emigration. The primary destinations for emigrating Belarusians are the EU and Russia. According to Eurostat, around 500 thousand Belarusian citizens have legalized their status in the European Union since 2020. As one part of the population leaves and another ages into retirement, a relatively small younger generation replaces them.

The labor shortage continues to intensify, with over 168 thousand vacancies listed in the national database, forcing companies to raise wages and find new ways to retain staff. Higher wage levels increase business costs. Under normal conditions, such circumstances would drive inflation. However, as mentioned above, this is not occurring in Belarus due to the system of administrative price controls. This complicates matters further for both private and state-owned enterprises and impacts the budget burden, increasing economic risks.

An unexpected side effect of the specialist shortage

The current labor market situation has some second-order effects, particularly on labor productivity. Productivity has been rising in the public sector, where there was previously overemployment, and now labor resources are being used more efficiently. In private businesses, where labor productivity is traditionally higher, there has been a decline, largely due to the shortage of skilled workers. With a limited candidate pool, companies are often forced to hire less experienced specialists, lowering overall competency levels compared to previous years.

However, this labor shortage may serve as a constructive challenge, potentially leading to improved labor efficiency in the long term. In countries experiencing labor shortages, positive effects on future labor productivity often arise as companies begin adopting labor-saving technologies, especially when they have the capital to invest. Whether this will happen in Belarus depends on various factors. Currently, investment levels remain relatively low, possibly due to a lack of confidence among businesses that elevated demand – both domestic and international – will be sustained for long.

Solving labor market issues largely depends on broader processes

Belarus is not the first country to face labor market challenges due to a shortage of workers. Globally, there are already various examples of strategies to address such challenges, with mixed levels of success. Theoretically possible solutions include attracting immigrants, encouraging emigrants to return, making more effective use of existing labor resources, and stimulating birth rates (though the impact of the latter takes decades to materialize).

There are, however, barriers to implementing these main strategies, and many lie outside the economic realm. Attracting immigrants is theoretically feasible, but the quality of the incoming workforce may be lower, which would only partially address the labor shortage. Some immigrants, particularly highly skilled workers, may hesitate to come to Belarus due to the sociopolitical climate and economic instability, which is also tied to sanctions. Additionally, Belarus's immigration policies are inflexible, presenting bureaucratic hurdles for foreign workers, such as obtaining work permits and navigating strict entry and residence rules.

Repatriating Belarusians who have emigrated would also require substantial political changes. It might be more realistic to encourage the return of those who left for economic reasons, but bringing back political emigrants would demand a significant social and political transformation. Ending repressions alone may not be sufficient; people would need assurances that such conditions won't recur. This would require credible safety guarantees for those who participated in protests and initiating an open dialogue between the government and society to rebuild trust. Without substantial political reforms, it is unlikely that Minsk has the tools to persuade people to trust the offered assurances.

Available tools for addressing the labor shortage

At the same time, many human resources within Belarus are currently underutilized. There are groups whose labor could be used more effectively, such as various discriminated groups, including national minorities, women, and older adults. There is also discrimination based on political preferences and disability status. This inequality has created a large, untapped labor reserve.

Another potential step to reduce labor market pressure is to shorten the length of paid parental leave, provided that adequate support infrastructure is in place for families (such as increasing the availability of daycare centers). Raising the retirement age for women to match that of men could also be considered. Although such measures are typically unpopular, they may become necessary in the long term.

Systemic solutions could include reallocating labor resources between the public and private sectors. Many state-owned enterprises are chronically unprofitable but are sustained by loans and budget subsidies. Given the current labor shortage, it would be sensible to transition workers from less productive industries to more efficient sectors of the economy, providing them with retraining and support to adapt to new working conditions.

FOREING TRADE AND FOREIGN EXCHANGE MARKET: STATUS, RISKS, AND OUTLOOK

Anatoly Kharitonchik, Research Associate, BEROC

Nothing critical has happened in foreign trade and the foreign exchange market this year

From 2020 to 2022, Belarus's external trade position was "abnormal." First, the rapid recovery of the global economy after the pandemic's acute phase, and later a series of unexpected positive effects following intensified sanctions against Belarus and Russia, led to an unprecedented trade surplus in goods and services for Belarus – around 5% of GDP on average during those years.

By 2023, this surplus had disappeared. The main drivers were a significant increase in imports due to overheated domestic demand, a marked rise in service imports due to restructured supply chains, and worsening trade conditions as export prices declined. There was also a notable drop in service exports amid a downturn in the ICT sector and reduced transit freight.

These factors continue to some extent this year. Overheated domestic demand has intensified, especially in consumer demand, which in Q2-2024 increased by more than 17% over the 2021 average in real terms. This has kept goods imports high. Private and public sectors continually adapt to new sanctions, raising costs and driving up service imports. Exports to Russia showed momentum at the start of the year but began to slow by midyear due to capacity constraints in Belarusian industry, signs of weakening demand in Russia, and increased competition in the Russian market.

Exports of key commodities, such as petroleum products and potash fertilizers, returned to pre-pandemic levels in 2023. However, further growth is constrained by infrastructure limitations. Additionally, the discount on Russian Urals crude oil relative to the global Brent benchmark narrowed this year, reducing Belarus's benefit from importing cheaper Russian oil, refining it, and exporting petroleum products. This benefit is expected to fall from around $1.9 billion in 2023 to about $1 billion in 2024. A modest improvement in service exports, driven by the end of the ICT sector's decline, is positive, but its volume – around 12–13% of GDP – still lags behind the 14–15% seen from 2017 to 2021.

Overall, adjusting for seasonal factors, the trade balance for goods and services was near 0% of GDP from January to August of this year. This raises the question: is a near-zero trade balance sustainable? Sustainability can be evaluated from two perspectives. First: does a zero balance align with the current account norm for Belarus? (The current account norm represents a stable, balanced current account under equilibrium conditions.) The current account includes not only foreign trade in goods and services but also income transactions between residents and non-residents (such as dividends or other investment income) and transfers (like remittances). Second: even if a zero balance aligns with the current account norm, will it be feasible to maintain this level in the medium term, given current domestic and external conditions?

Risk of increased pressure on the Belarusian ruble exchange rate

Determining whether the current external trade position aligns with the current account norm for Belarus is highly challenging. Before 2022 (more precisely, before the onset of the pandemic in 2020), a current account deficit of around 1.5–2% of GDP was considered normal for Belarus. This was supported by a near-zero balance in goods and services trade, as Belarus consistently experienced a net outflow in primary and secondary income. This level of the current account deficit was manageable and sustainably financed by the country.

Since 2022, Belarus's economy has been operating under new conditions and undergoing structural transformation. Model-based estimates of the sustainable path of macroeconomic indicators have a high degree of uncertainty. On one hand, Western capital markets have effectively closed to the Belarusian government, while access to external financing from the EU and US for the banking system and businesses has become much more difficult, potentially complicating the stable financing of a current account deficit and increasing the norm. On the other hand, support from Russia has persisted (including an unprecedented partial debt forgiveness of around $0.5 billion in Q4-2023), and the Belarusian government has effectively refused to pay off debts on Eurobonds in accordance with the issuance terms.

The stability of these compensatory mechanisms is far from certain. Thus, the pre-crisis current account norm and a near-zero trade balance in goods and services could be seen as a threshold for macroeconomic stability in Belarus's external economic position. Crossing this threshold – moving the trade balance into deficit – may lead to increased pressure on the country's currency market.

The foreign exchange market does not look problematic, but unstable positive signals may mask growing risks

As of the first nine months of 2024, the domestic foreign exchange market in Belarus had a net foreign currency supply of $454 million. The National Bank, along with the Ministry of Finance, absorbed this surplus. As a result, the basket of foreign currencies has risen in price by less than 1% over this period. Overall, the Belarusian ruble remains close to its equilibrium level this year, with a slight undervaluation of about 1–2%, indirectly suggesting that a near-balanced trade position could still be "normal" for Belarus.

However, some signals suggest that the current account norm may have risen slightly since 2022. Adjusting for seasonality, the net foreign currency supply of $454 million for the nine months shrinks to roughly

$300 million. During the macroeconomic stability period of 2017–2019, net foreign currency sales from January to September exceeded $1 billion annually.

It is also noteworthy that the currency market in 2024 has continued to be supported by net foreign currency sales by the population, exceeding $1 billion over nine months (seasonally adjusted), with September sales reaching a record high for over 15 years. This behavior among individuals amid rising incomes may reflect neutral interest rates on term deposits, strong demand for real estate, and reduced incentives for foreign currency savings due to sanctions.

On the other hand, companies have shown the highest net demand for foreign currency since 2010, amounting to nearly $2 billion in the first nine months of 2024. This demand has not been offset by foreign currency supply from non-residents, which surged post-February 2022 due to supply chain restructuring and adjustments in financing mechanisms. Part of the record demand from companies may relate to one-off purchases by large enterprises, resulting in an unusual accumulation of foreign currency on corporate bank accounts (increasing by approximately $0.6 billion from December 2023 to August 2024, seasonally adjusted). However, even without these one-off transactions, net demand remains near record highs, driven by the trade surplus depletion and significant delays in foreign currency receipts, likely due to the complexities of financial transactions in a sanctioned environment.

As a result, the continued net foreign currency supply by the population is currently masking worsening conditions in the corporate foreign exchange market. The sustainability of this situation is uncertain, particularly if the Belarusian authorities persist in maintaining an overly loose economic policy and stimulating consumer demand. This brings us to the second aspect of assessing the sustainability of a near-zero trade balance: whether it can be maintained in the medium term without major, abrupt macroeconomic adjustments.

Baseline scenario for 2024–2025: a trade deficit in goods and services of 0–2% of GDP and a moderate depreciation of the Belarusian ruble by 4–6% against the currency basket

By the end of this year, the foreign trade balance for goods and services is expected to be close to neutral or show a small deficit of around 1% of GDP. This scenario assumes continued excess demand, which supports import levels, the resumption of petroleum product exports following repairs at the Mozyr refinery, and stable export volumes to Russia.

The outlook for next year is far more uncertain. External conditions are unlikely to support increased exports of Belarusian goods. A key factor will be the anticipated slowdown in the Russian economy due to tight monetary policy, restrictions on subsidized mortgage programs, and a planned reduction in fiscal stimulus. This will likely dampen demand for Belarusian exports. Additionally, Belarusian industry has reached maximum production capacity, and insufficient investment to expand capacity will limit export growth on the supply side.

Imports in 2025 are likely to remain elevated. After a “normalization” period during the 2015–2020 presidential electoral campaign, Belarusian authorities have returned to their practice of stimulating consumer demand in the pre-election period, primarily through increased public spending on wages and social benefits. Real consolidated budget spending rose by over 10% in 2023, another 8% in the first half of 2024, and National Bank purchases of government bonds on the secondary market this year indicate an intent to maintain a stimulative fiscal policy through the remainder of 2024 and at least the first half of 2025. This will continue to encourage excess consumption, and its correction to a balanced state is likely to be slow and inertial.

In terms of monetary policy, the National Bank will likely maintain neutral monetary conditions, which will be insufficient to quickly cool down the high demand for credit. Due to the loss of institutional and operational independence, the National Bank is unable to take a firm position and “push through” the required moderate tightening of monetary policy. Such a desynchronization between Belarusian and Russian monetary policies – where interest rates are significantly higher in Russia – poses risks for Belarus’s currency market, impacting both the maintenance of excess domestic demand and imports as well as the relative appeal of investments in assets denominated in Russian rubles.

As a result, the baseline scenario for the Belarusian economy, assuming no significant shocks or “hard landing”, involves a gradual cooling and a slowdown in GDP growth from 4–4.5% in 2024 to 1–2% in 2025. This corresponds to a trade deficit in goods and services of 0–2% of GDP and moderate pressure on the Belarusian ruble, which may depreciate by 4–6% against the currency basket over the coming year.

The risks to this baseline scenario are high, and deviations are likely. However, it is important to note that despite reverting to old, counterproductive economic policy practices, Belarusian authorities have accumulated considerable expertise in responding to crises. A key factor is the current flexible exchange rate framework, unlike the fixed exchange rate before 2015. The floating exchange rate helps avoid situations of excessive overvaluation of the national currency and prevents abrupt, painful exchange rate adjustments like those seen in 2011 and 2015. Additionally, a floating exchange rate serves as a shock absorber, mitigating negative impacts on the real economy and population. Economic resilience would be further strengthened by ensuring the operational and institutional independence of the National Bank.

Statements by some analysts predicting imminent hyperinflation or a currency devaluation akin to 2011 are speculative and lack supporting evidence. While such crises cannot be entirely ruled out, they would require a severe collapse in the global and/or Russian economy comparable to a major financial crisis, coupled with a maximally counterproductive response by the Belarusian authorities.

FINANCIAL CONDITION OF COMPANIES: WHAT PROBLEMS DO THEY FACE AND HOW DO THEY OVERCOME

A financial director of a large Belarusian company, who wished to be anonymous

Financial position: not optimal but not crucial

The profitability situation for Belarusian companies from January to August reflects the difficult environment businesses are navigating amid persistent challenges. Profitability of sold products and services dropped by 1.2 percentage points year-over-year to 8.1%, indicating that companies are earning less per ruble of goods sold. This could result from rising costs for raw materials, logistics, and labor. Revenue over the same period increased by 16% year-over-year, reaching nearly 286 billion rubles.

Sales profitability declined even more sharply, down 0.7 percentage points to 6.7% – the lowest in at least the past five years. This reduction in earnings per ruble of revenue may be due to the need to sell at lower prices, both domestically, where prices are regulated, and internationally to maintain competitiveness, especially under stricter sanctions and export market pressures.

Despite these negative trends, pre-tax profits rose by 9.3%, likely reflecting companies' adaptation to the new environment by optimizing operations, reducing inefficiencies, or finding new revenue sources. However, net profit grew by only 3.9%, indicating that the financial burden, including taxes and other payments, remains substantial. This slows the growth of distributable profits available for reinvestment.

Underlying issues like declining profitability and slow net profit growth suggest that Belarusian businesses are operating under constant pressure, adapting to new challenges but without a significant safety margin.

Rising debt levels

Corporate debt to banks reached 54.3 billion rubles as of September 1, a 10% increase year-over-year and a 3.6% increase since the beginning of 2024. Overdue debt rose by 7% year-over-year and by 23.8% since the beginning of the year, reaching 63.9 million rubles by September 1.

This sharp rise in overdue debt may stem from several factors. First, some companies are taking on more loans to cope with rising costs and external challenges, yet they struggle to service these debts. Second, as profitability and margins shrink, fewer funds are available for debt repayment. Third, sanctions have cut off access to international financing.

Sectoral situation

Conditions vary across sectors. In logistics, companies have overcome significant hurdles but now face shorter planning horizons due to the high cost of services, resulting from the need to reconfigure routes to more complex and costly paths. Many clients prioritize immediate savings over long-term logistics agreements, opting for flexibility instead. The constant reevaluation of service costs and the shift to more affordable providers make it difficult for logistics firms to plan operations even a year out, pushing them to adopt shorter-term, unstable models.

In trade, conditions are more challenging: about a third of companies operate with negative sales margins, and average profitability stands at around 0.5% for wholesale and 1.2% for retail. For Belarus, these are low figures, as companies usually price in higher risk margins. However, compared to developed countries, these figures are closer to their norms, where the retail sector often sees low profit margins due to market maturity and high competition among major players.

While financial indicators are worsening and price regulation remains a significant constraint on growth, sentiment varies within the trade sector. Some retailers are still targeting high growth, expecting strong consumer demand to continue.

Production, meanwhile, has largely shifted focus to Russia due to the limited domestic market. For the past two years, Belarusian companies have filled open niches in Russia, allowing them to sustain and even increase production. However, as Russian economic growth slows and competition from local and Chinese producers increases, this situation may change.

The food industry reports that it has "found the bottom" and adapted to working under ongoing difficulties. Payment challenges have become routine, and businesses now respond to new obstacles by exploring alternatives: new banks, cryptocurrency tools, agents, and counter-trade agreements. These adaptations raise costs, though companies have managed to pass some of these onto export prices. The domestic market, however, remains challenging due to price regulation.

Manufacturers of non-everyday goods, previously oriented toward Western markets, now face difficulties relying on domestic demand. Many find entering the Russian market challenging due to high competition from local producers who often use gray-market schemes to lower prices, putting Belarusian companies at a disadvantage.

Success in the Russian market or the domestic market could also create a trap. Companies might be tempted to expand capacity or build new facilities, based on the recent experience of operating at full capacity. However, without reliable indicators of sustained demand, there's a risk that new facilities could end up idle.

The overall picture points to high adaptability

Losing access to full engagement with developed countries has created difficulties for Belarusian businesses.

This impacts not only their ability to access global markets, which is crucial for economic development, but also limits access to Western technologies. Under these circumstances, businesses are seeking alternatives, often turning eastward. Although not ideal, these eastern partnerships, particularly with Russia, provide a feasible path for continued operations.

The painful experience of adapting to these new conditions has shown that Belarusian businesses and the economy as a whole demonstrate considerable adaptability and resilience amid constant change. Despite external factors that may appear threatening to stability, companies continue to find ways to overcome challenges. Many firms are effectively responding to new demands, changing strategies, optimizing processes, and navigating through instability and unexpected changes. This reflects the flexibility and adaptability of Belarusian businesses, enabling them not only to survive but also to grow during periods of economic turbulence.