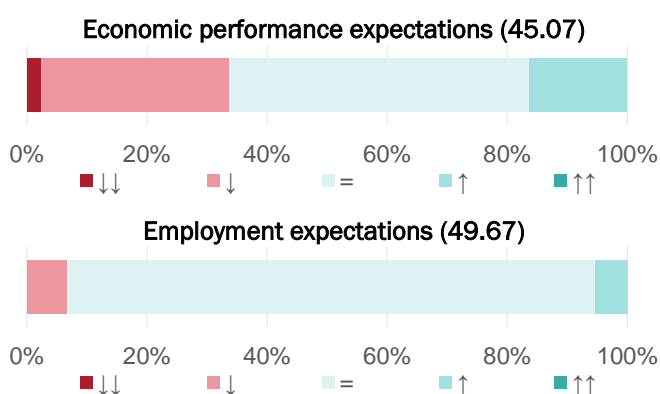
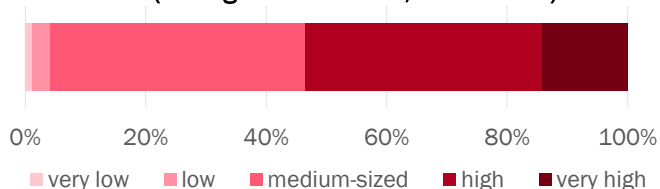


Abstract

- The value of the composite BCI index moved to the decline zone and amounted to 47.07 in April.
- The average score of the current risks for doing business in Belarus amounted to 3.68 in April, and it has not changed significantly compared to December 2021 (3.64); however, it has increased sharply compared to January-February 2022 (2.88).
- The “access to finance” index deteriorated sharply and amounted to 39.82 (declined).
- The list of barriers to expansion of business activities has enlarged; therefore, traditional impediments (macroeconomic instability, high uncertainty, and low demand) have been supplemented by supply chain disruptions and by a challenge specific to the industrial production, building and construction sectors: the lack of raw materials / materials / components. The last 2 barriers are associated with the war in Ukraine and the sanctions imposed against Russia and Belarus.



Assessment of the current risks for doing business in Belarus (average score is 3.68, median is 4)



**Composite BCI,
April 2022:
47.07 [45.75–48.39]**

Legend keys: ↓↓ is “will significantly worsen/decrease”; ↓ is “will worsen/decrease”; = is “will not change practically”; ↑ is “will improve/increase”; ↑↑ is “will improve/increase significantly”.

Note. Index values less than 50 mean “deterioration/decrease”, 50 means “no changes”, and above 50 means “improvement/growth”. Risks were scored on a five-point scale, where 1 is “very low”, 5 is “very high”). The confidence interval of the composite BCI index (95%) is square-bracketed.

Source: BEROC.

The bulletin is based on the online survey of 300 SMEs (staffed with 16–250 people when surveyed) in four aggregated business activities: industrial production (Sections B, C, D, E of CCEA), construction (Section F of CCEA), wholesale and retail trade (Section G of CCEA), and services (other business activities except Section A of CCEA). The sample has been stratified (75 companies from each of the enlarged types of business activities have been surveyed). Business owners and top managers have been interviewed. The questionnaire is based on the **OECD methodology**.

BCI is calculated similarly to PMI, but BCI has a five-point scale. Extremely negative responses have a weight of 0; negative responses have a weight of 0.25; neutral responses have a weight of 0.5; positive responses have a weight of 0.75; extremely positive responses have a weight of 1. The composite index is calculated as the arithmetic mean of the following indices: expected economic performance change, expected financial performance change, expected employment change, and expected production/orders/sales change. The IPM Research Center has applied the same approach when calculating the **IPM index**.

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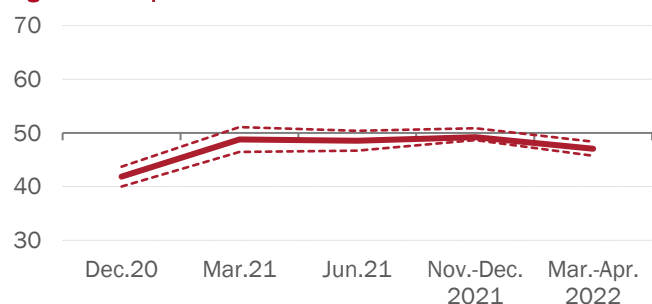
Composite index dynamics

- Composite BCI index, “past”: 41.16 (decline)
- Composite BCI index, “present”: 45.22 (decline)
- Composite BCI index: 47.07 (decline)

The composite BCI index in March-April turned out to be in a decline zone for the first time since December 2020. Its value was 47.07, i.e. businesses on average expected their business activities to shrink.

The value of the “past” composite BCI index (41.16), which reflects changes in the economic performance and financial standing of the company, its employment and production (sales) for the three months preceding the survey, and the value of the “present” composite BCI index also turned out to be in a decline zone (45.22).

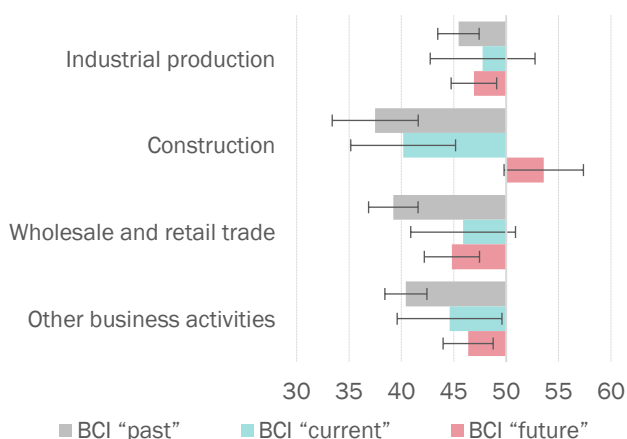
Figure 1. Composite BCI



Note. The scale is from 0 to 100, where less than 50 is “decline”, and more than 50 is “growth”. Dotted lines denote 95% confidence intervals here and below.

The values of the “past” and “present” composite BCI indices are in a decline zone for all types of business activities, which indicates a reduction in business activity. With the exception of the construction sector, in other business activities, companies expect this trend to continue for the coming three months: the composite BCI index is significantly less than 50. “Optimism” about the future of the construction sector (the indicator is practically in a growth zone) may be associated with the low base effect (a decline in the construction sector has been going on for 2 years), because there are no economic prerequisites to be optimistic.

Figure 2. Composite BCI indices by type of activity



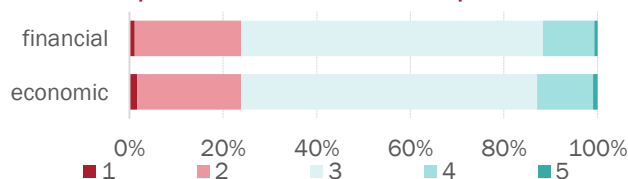
Note. The scale is from 0 to 100, where less than 50 is “decline”, and more than 50 is “growth”.

Economic performance and financial performance

- BCI, economic performance index, “present”: 47.09 (decline)
- BCI, financial standing index, “present”: 46.83 (decline)

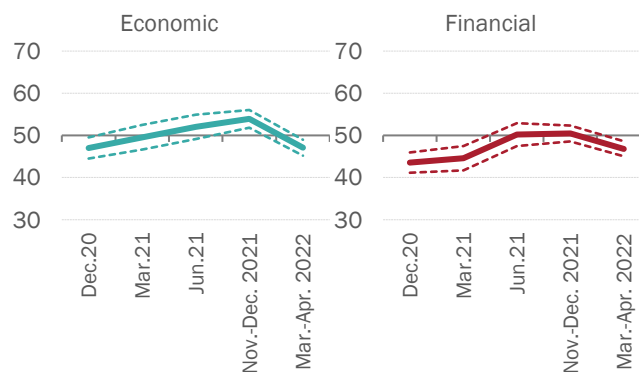
Indices of the current economic performance and financial standing in March-April have fallen into a negative zone. At that, the majority of Belarusian SMEs assess their economic performance and financial standing as satisfactory (63.2 and 64.5, respectively). The last time the assessment of the current economic performance was in a recession zone in December 2020, and the last time the assessment of the current financial standing was in a recession zone in March 2021.

Figure 3. Assessment of the current economic performance and financial performance of businesses in April 2021



Note. Scale from 1 to 5, where 1 is “very bad” and 5 is “very good”.

Figure 4. Indices of economic performance and financial performance, “present”



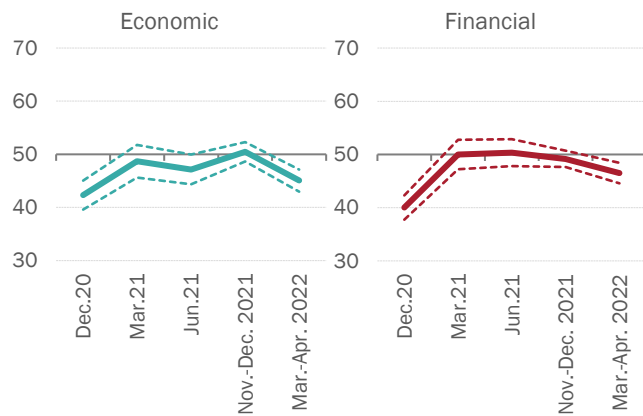
Note. The scale is from 0 to 100, where less than 50 is “decline”, and more than 50 is “growth”.

- BCI, economic performance index, “future”: 45.07 (decline)
- BCI, financial standing index, “future”: 46.52 (decline)

Expectations of businesses regarding further changes in their economic performance worsened compared to December 2021 and ended up in a negative zone. More than a third of respondents expect their economic performance to worsen in the coming three months, and only 16.3% of respondents expect it to improve.

The BCI index of the “future” financial standing also turned out to be in a recession zone (46.52), as 29.2% of respondents believe that it will worsen in the near future, and only 16.1% of respondents believe it will improve.

Figure 5. Indices of economic performance and financial performance, “future”



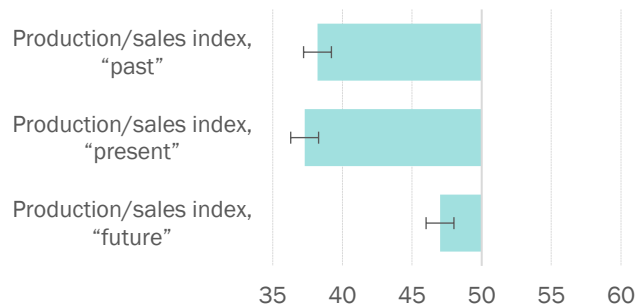
Note. Scale from 0 to 100, where 0 is “will significantly deteriorate” and 100 is “will significantly improve”.

Production and sales

- BCI, production/sales index, “past”: 38.21 (decline)
- BCI, production/sales index, “present”: 37.29 (decline)
- BCI, production/sales index, “future”: 47.01 (decline)

The index of production (industrial production and construction)/sales (trade and services) has ended up in a recession zone over the past 3 months. At the time of the survey, the current volume of demand/orders was also in a downtrend zone in all business activities, and the average “present” production/sales index was 37.29 (it was 44.86 in November-December 2021).

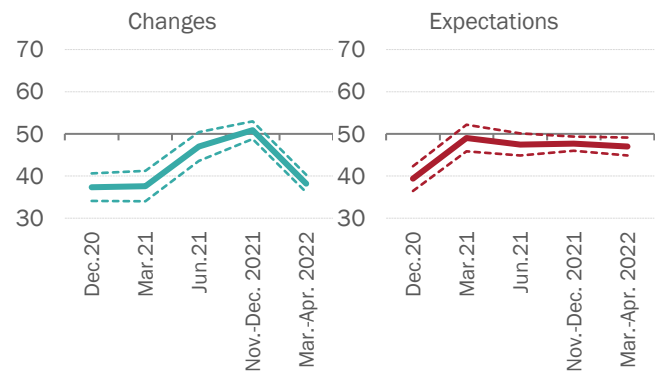
Figure 6. Production/sales indices



Note. Scale from 0 to 100, where 0 is “a significant decrease” and 100 is “a significant increase”. “Past” is the change in production/sales over the past 3 months; “present” is the current scope of demand compared to “normal” demand; “future” is the change in production/sales in the coming 3 months.

The surveyed companies, on average, expected production volumes (executed orders or services provided) or sales to decrease in the coming three months. In particular, 41.1% of trading companies and 27.7% of industrial companies expect a decline in production/sales, while growth is expected by 12.3% and 27.7%, respectively. In the construction sector, on the contrary, only 13.2% of companies expect a decline, and 31.6% of businesses expect growth, which is consistent with the composite BCI index (although, again, the reasons for such optimism – other than the low base effect – are unclear).

Figure 7. Indices of changes in production/sales for the last 3 months and in the coming 3 months



Note. Scale from 0 to 100, where 0 is “a significant decrease” and 100 is “a significant increase”.

Employment

- BCI, employment index, “past”: 47.66 (decline)
- BCI, employment index, “future”: 49.67 (neutral)

The employment change index has been in a negative zone over the past 3 months. At that, a significant drop in employment was in the trade and construction sectors: 20.5% of construction companies and 19.4% of trading companies reported job losses, and only 2.6% of construction companies and 2.8% of trading companies reported new jobs.

Figure 8. Assessment of changes in employment over the past 3 months and in the coming 3 months

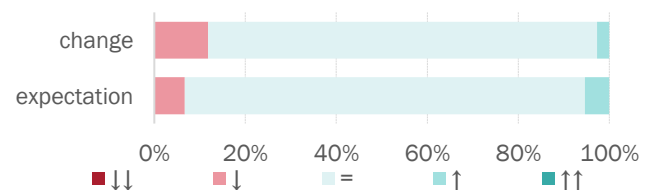
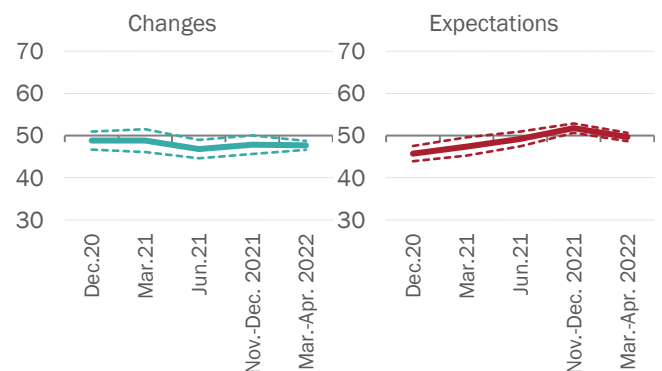


Figure 9. The index of employment changes over the past 3 months and expectations for the coming 3 months



Note. Scale from 0 to 100, where 0 is “a significant decrease” and 100 is “a significant increase”

Despite companies expect production and sales to drop, the index of employment changes expected in the coming 3 months (“future”) is in a neutral zone: 5.4% of businesses expect their staff to grow, and 6.7% of businesses expect their staff to shrink. In terms of employment expectations, all business activities are in a neutral zone: companies do not expect significant changes in their staff numbers.

Prices

- BCI, price index, “past”: 61.28 (growth)
- BCI, price index, “future”: 58.87 (growth)

Assessments of the dynamics of selling prices are in a growth zone still: 40% of respondents reported an increase in prices for their goods and services over the past 3 months, while 54.4% of companies reported their prices in the BYN equivalent remained unchanged. Prices have grown the most in the trade sector (the “past” price index amounted to 71.71), while prices have rather remained unchanged in the construction sector (47.67). Alongside with the previous employment dynamics, this may argue in favor of explaining the “optimism” of construction companies about the future by the low base effect.

Figure 10. Assessment of changes in selling prices over the past 3 months and in the coming 3 months

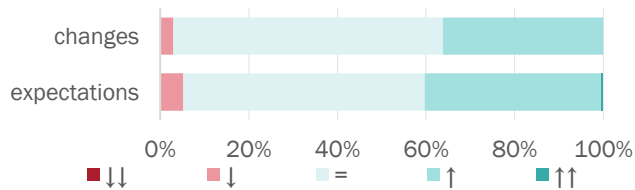
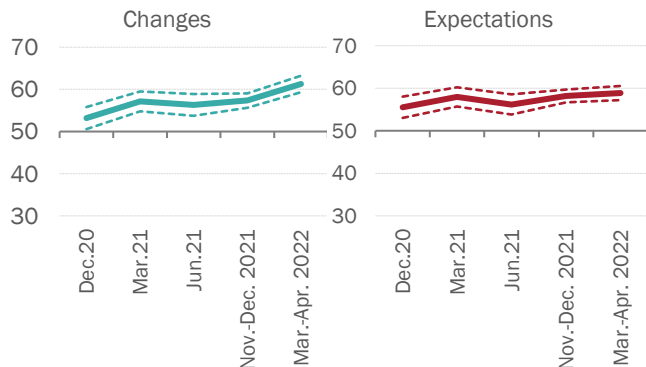


Figure 11. Index of changes in selling prices over the past 3 months and in the coming 3 months



Note. Scale from 0 to 1, where 0 means is “significantly decreased / will decrease”, 1 means “significantly increased / will increase”.

The share of companies expecting selling prices to increase in the coming three months (36.1%) turned out to be less than the share of those who reported a price increase over the past 3 months (40.4%). In general, the indices of selling price changes over the past three months and in the coming three months are strongly correlated, and they are in a growth zone. Considering this situation, it is clearly premature to expect inflation to decrease.

Impediments to business expansion

- Average assessment of the current risks for doing business in Belarus: 3.68

The average score of the current risks for doing business in Belarus amounted to 3.68 in April, and it has not changed significantly compared to November-December 2021. However, measurements made by the

Kastychnitski Economic Forums (KEF) in January-February 2022 (before the war in Ukraine) showed a sharp decline in the risk assessment of doing business in the country against the backdrop of the favorable outcomes in 2021; i.e., in fact, the war and its consequences (sanctions and other restrictions) “nullified” improvements in risk perceptions by SMEs.

Figure 12. Average business risk assessment score



Note. Scale from 1 to 5, where 1 is “very low” and 5 is “very high”. Median = 4, excluding Jan-Feb 2022 (median = 3). Data for Jan-Feb 2022: survey of 401 SMEs (source: KEF).

To clarify what risks were meant, respondents were asked to assess the likelihood of 12 events and their probable impacts on businesses: (1) banking crisis (bankruptcy/default of one or more banks or significant additional capitalization of key banks by the government); (2) currency crisis (dramatic depreciation of the Belarusian ruble); (3) introduction of new regulatory measures, higher taxes, tougher public audits/inspections, etc.; (4) imposition of new sanctions against Belarusian companies and business people; (5) imposition of new sanctions against Russia; (6) displacement of Belarusian companies from the Russian market by competitors; (7) public debt crisis (inability of the government to service its obligations, public debt restructuring); (8) significant depreciation of the Russian ruble; (9) rising prices for imported goods (other than raw materials); (10) rising commodity and energy prices; (11) softer monetary policy (the National Bank (central bank) will “print” money for the public budget and state-owned enterprises); (12) tightening of price regulation.

Out of the proposed list of the negative events, respondents believed the most likely future events would be: the rise in prices for imported goods (except for raw materials) (70.1% believe it is “highly probable” and “very highly probable”), the imposition of new sanctions against Russia (66.8%), and against Belarusian companies and business people (60.2%). The least likely events would be: the expulsion of Belarusian companies from the Russian market (47.4% of respondents rated this risk as very unlikely or unlikely), a significant depreciation of the Russian ruble (34.8%), and the introduction of new regulatory measures, tax increases, tougher public audits/inspections, etc. (24%). In the sample in general, the likelihood of most events was assessed as medium, the probability of Belarusian companies to be squeezed out of the Russian market was assessed as low, and the possibility of the increase in

prices for imported goods and the likelihood of the imposition of new sanctions against Russia and Belarus was assessed as high.

The greatest impact on Belarusian SMEs — out of all negative events — would be: an increase in prices for commodities and energy commodities (average score = 3.37 on a scale from 1 to 4, where 1 is “will not affect”, 2 is “will not significantly affect”, 3 is “will affect moderately”, and 4 is “will have a significant impact”), a currency crisis (3.36), and rising prices for imported non-commodities (3.31). In the sample in general, assessment of the impact of all prompted negative events exceeds the score of 3 (“will affect moderately”).

The indicator named “occurrence probability multiplied by the impact strength” is the highest for “rising prices for imported non-commodities”, “imposing new sanctions against Russia”, and “imposing new sanctions against Belarusian companies and business people”

(exceeds the value of 2.1, which corresponds to the product of a high probability of an event occurring and a moderate strength of its impact on the business). Least of all, companies are afraid of the displacement of Belarusian companies from the Russian market by competitors and a significant fall in the exchange rate of the Russian ruble (the value of the indicator is below 1.5, which corresponds to the product of the average event occurrence probability and the moderate strength of its impact on the business).

To minimize the consequences of the onset of the risks, a significant share of respondents reported that their company had taken steps associated with searching for new formats of business activities (26.9%), launching new products/services (24%), and penetrating new export markets (17.6%). 26.6% of companies did nothing to mitigate risks.

Figure 13. Distribution of answers to the question “What steps has your company been taking to minimize the consequences of risks?”, % of respondents.

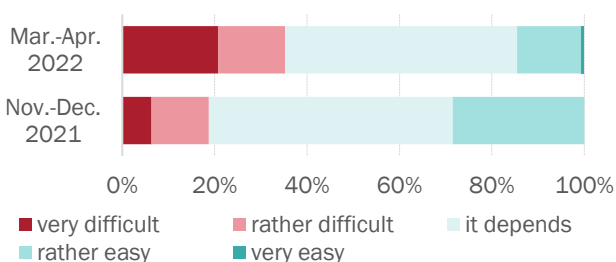


Note. Respondents were to select all pertinent options.

• BCI, “access to finance”: 39.82 (decline)

The share of companies that reported it was “very difficult” or “rather difficult” for them to get a loan or other external financing increased significantly in March-April (35.2%) compared to November-December 2021 (18.6%). It is easiest for SMEs from the construction sector to get a loan (25.7% reported that it was “very easy” or “rather easy” to get a loan), and it was the most difficult for SMEs from the trade sector to get a loan (8.2%).

Figure 14. Access to finance, %



Top 5 impediments to business expansion:

- macroeconomic instability;
- supply chain disruptions;
- shortage of raw materials/materials/components;
- high uncertainty of economic environment;
- low demand.

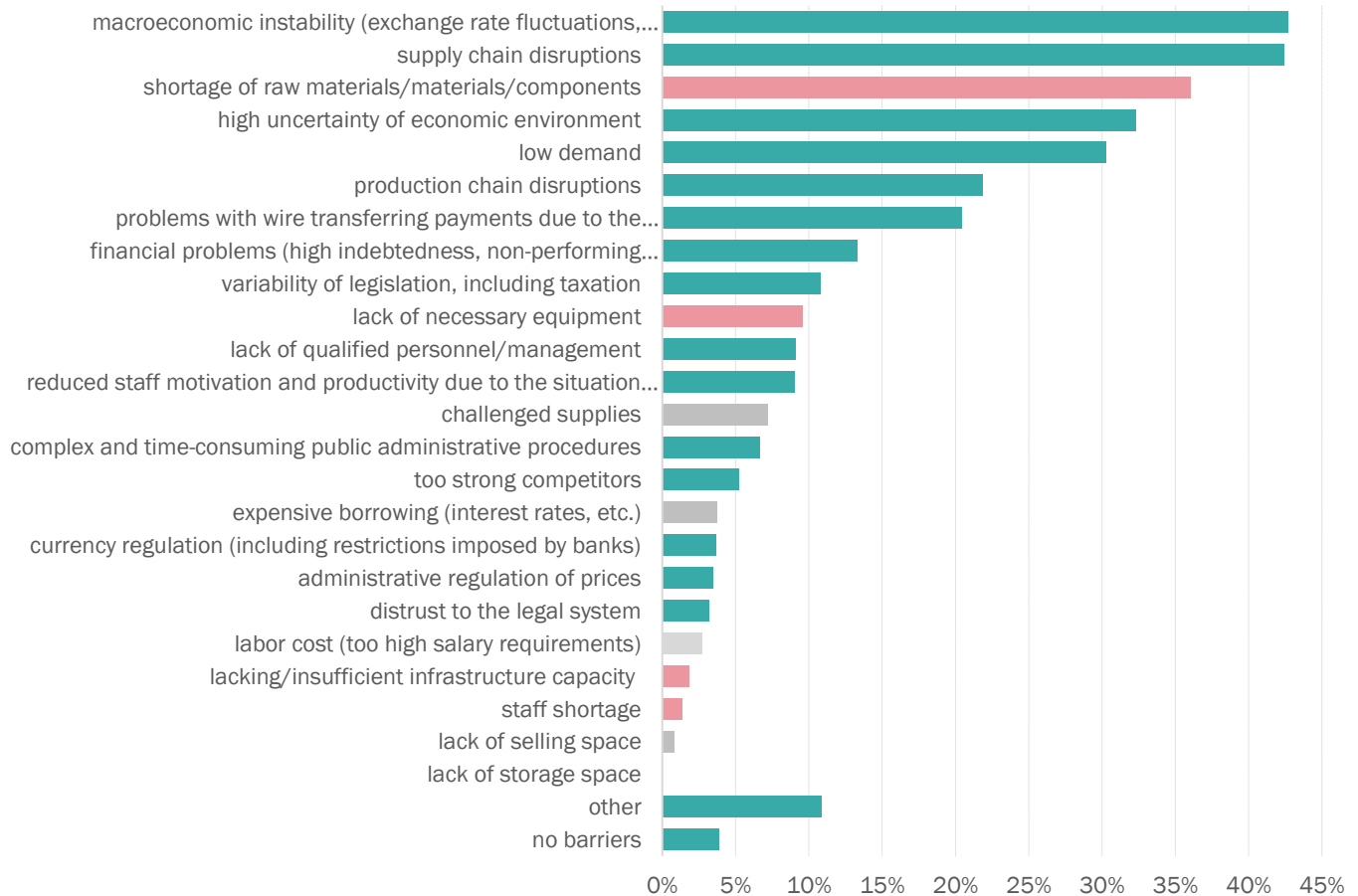
Compared to the results of the survey at the end of 2021, the Top 5 obstacles to increasing business activity included challenges caused by military operations on the territory of Ukraine, sanctions and restrictions imposed both by states and some companies that suspended cooperation with Belarusian business entities (the corresponding answer options were added to the list of barriers). In addition to the resulting macroeconomic instability (42.7%) — as factors hindering the growth of business activity, — 42.4% of companies reported disrupted supply chains, and 36.1% of companies reported a shortage of raw materials/materials/components. Moreover, 20.4% of respondents re-

ported challenges with wire transferring payments because of the imposed sanctions. This challenge was the most relevant to the trade sector: 29.2% of companies chose it as one of the most significant impediments.

In the sector of industrial production, the most significant impediment was “macroeconomic instability”

(57.1%); in the trade sector it was “supply chain disruptions” (63.0%); in the construction sector it was “low demand” (74.4%); and, against this backdrop, as shown above, companies in the construction sector expect their standing to improve in the coming 3 months. Finally, 3.9% of respondents answered that nothing prevented their companies to expand their business activity (it was 10.3% in November-December 2021).

Figure 15. Distribution of answers to the question “What factors impede the growth of your company's business activity”, % of respondents who had the opportunity to select the appropriate option



Note. Respondents were to select up to 5 options. Some answer options varied depending on the type of business activity (general answer options for companies in the industrial production and construction sectors (specific answer options for these sectors are pinkcolored) and for companies in the trade sector and other sectors (yellow-colored)). The remaining options (colored blue) were the same for all sectors.

Full breakdown of the answer options with ellipsis: macroeconomic instability (forex rate fluctuations, inflation); financial problems (large outstanding loans, non-performing receivables, etc.); labor costs (excessive salary requirements); complex and time-consuming public administrative procedures; lacking/insufficient infrastructure capacity.

Final sample design (unweighted), April 2021**Table 1. Distribution by when established**

	Nov.-Dec. 2021	Mar.-Apr. 2022
to 1995	19.3	20.7
1996-2000	16.7	10.3
2001-2005	14.0	14.7
2006-2010	23.7	24.0
2011-2015	19.0	20.0
2016+	7.3	10.3
Total	100.0	100.0

Source: BEROC.

Table 2. Distribution by staff size

	Nov.-Dec. 2021	Mar.-Apr. 2022
16-50	68.7	76.7
51-100	17.3	17.0
101-250	14.0	6.3
Total	100.0	100.0

Source: BEROC.

Table 3. Distribution by location

	Nov.-Dec. 2021	Mar.-Apr. 2022
Minsk	47.7	47.3
Country's regional center or other large city	41.0	39.0
District center	5.3	7.3
Other towns, urban-type settlements	2.7	2.3
Rural areas	3.3	4.0
Total	100.0	100.0

Source: BEROC.

Table 4. Distribution by place of business registration

	Nov.-Dec. 2021	Mar.-Apr. 2022
Brest Oblast	10.0	10.0
Vitebsk Oblast	11.0	11.0
Gomel Oblast	7.0	7.0
Grodno Oblast	9.0	9.0
Minsk Oblast	9.0	9.0
Mogilev Oblast	6.3	6.3
Minsk City	47.7	47.7
Total	100.0	100.0

Source: BEROC.

Table 5. Distribution by business activity

	Nov.-Dec. 2021	Mar.-Apr. 2022
Industrial production	25.0	25.0
Building and construction	25.0	25.0
Wholesale and retail trade	25.3	25.3
Other business activities	24.7	24.7
Total	100.0	100.0

Source: BEROC.

Methodological remarks

Four out of five indicators characterizing the expectations of companies were selected to calculate the composite BCI. In the surveys, expectations about the selling price dynamics do not match other expectations. The remaining four indicators (expectations about the economic performance, the number of employees, the financial standing, and the scope of production/work/sales) match one another, so merging them into a composite index is justified.

The data were weighted to calculate average indicators in the sample. A weighting criterion was the number of SMEs by type of business activity at the end of 2020 (according to the Belstat data, see Table 4). The resulting weights are in Table 4 (there is no difference between the waves, since the sample quotas for business activities have not changed).

Table 1. Initial data for calculating weights; weights for weighting the survey data

	Number of SMEs as of the end of 2020	Nov.-Dec. 2021	Mar.-Apr. 2022
Industrial production	3 830	1.1125	1.1125
Building and construction	1 758	0.5106	0.5106
Wholesale and retail trade; vehicle and motorcycle repair	3 327	0.9537	0.9537
Other business activities (except Section A of CCEA)	4 856	1.4296	1.4296
Total	13 771	-	-

Source: Belstat; the calculations are based on the Belstat and BEROC data.