

Belarus Insights: Foreign trade under extreme sanctions pressure

The relative stabilization since March, 22 was reflected in a monthly inflation slowdown, a reduction of the planned oil purchases, and ongoing services exports growth. It allows us to be less conservative in our estimates of the key rate, budget deficit and foreign trade deficit



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Key financial figures

	2020	2021	2022
Real GDP (% yoy)	-0.9	2.3	-4.0
Nominal GDP (USD bn)	60.2	66.7	62.5
CPI Inflation (eop, % yoy)	7.4	10.0	25.0
Unemployment (avg, %)	4.0	3.9	5.5
Budget Balance (% of GDP)	-1.4	0.5	-2.3
Public Debt (% of GDP)	39.3	34.3	37.0
Current Account Balance (% of GDP)	-0.2	0.8	-1.6
FX Reserves with Gold (USD bn)	7.5	8.4	6.0
EUR/LCY (eop)	3.16	2.96	3.62
USD/LCY (eop)	2.6	2.6	3.2

Source: Refinitiv, local sources, RBI/Raiffeisen Research

Summary

- **Western sanctions in action**
- Lower growth rate of imports dampens the commodity deficit
- **Administrative control of prices and tariffs** allows to restrain inflation and replenish the budget

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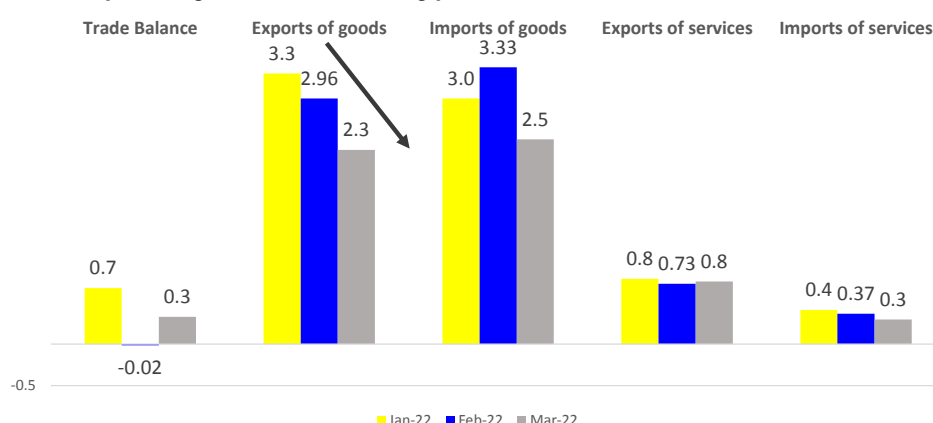
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Sanctions kick in

Despite the EU and US sanctions, Belarus' foreign trade demonstrated unprecedented growth rates in 2021. Import growth was much slower than exports (25.8% yoy vs. 32.5% yoy), the goods deficit decreased significantly (from USD 2 bn in 2020 to USD 0.8 bn in 2021), and services foreign trade surplus increased from USD 3.9 bn in 2020 to USD 4.6 bn in 2021, and foreign trade balance reached almost USD 4 bn vs. USD 1.9 bn in 2020.

In January 2022, these trends were still in place. However, the increased pressure of the **Western sanctions** adopted in 2021, together with the intensified sanctions pressure on Russia and Belarus after invasion in Ukraine, **has already had a significant negative impact on Belarus' foreign trade in February-March 2022.** In February 2022 the exports' growth slowed down significantly and amounted to 8.2% mom against 32.2% mom in January 2022. In March 2022 exports dropped by over 26% mom. In March 2022, however, imports began to decline more than exports (February 11% mom imports increase vs. more than 35% mom decline in March). At the same time, the **merchandise trade deficit slightly decreased in 1Q 2022 compared to 1Q 2021, from USD 210.6 mn to USD 202.1 mn.** The **foreign trade surplus of goods and services increased from USD 808 mn in Q1 2021 to USD 989.5 mn in the same period of 2022.** On the one hand, this **growth was caused by the reduction of goods deficit**, and on the other hand, **the ongoing growth of services exports (+4% mom in March) and decline of services imports (-23% mom in March)**, which allowed to accumulate a services surplus of USD 1.19 bn in Q1 2022 against USD 1.02 bn in Q1 2021.

Chart 1 - Exports of goods on the declining path



National Bank of Belarus, RBl/Raiffeisen Research

USD bn

Nevertheless, **we revised our foreign trade deficit outlook upward.** In our estimates, **we relied on the current foreign trade balance.** We also took into account **the fact that the planned volume of crude oil imports from Russia has been reduced by the government from 18 mn tons to 12 mn tons.** In addition, the **economic support provided by Russia opened up new opportunities** for increasing Belarusian exports to Russia. Taking into account the above-mentioned factors, **we expect that the commodity deficit can reach USD 2.5 bn** at the end of 2022. We also reduced the C/ A deficit to USD 1 bn in 2022. This improvement is driven by higher investment income figures, due to the government's introduction of capital controls for foreign investors. Plus, imports have been falling more intensely than exports. In addition, preferential treatment for the IT sector persists to support services.

Government cuts spending

From the fiscal side, the **saving of the budget expenditures** (21.5% of actual execution vs. 25% planned in Q1 2022), **as well as increasing revenues from VAT and excises**

(actual execution 25.3% and 31.6% vs. 25% planned in Q1 2022) due to administrative price regulation on excisable goods (petroleum prices raised by 19.8% ytd, tobacco price jumped by 21.5% ytd) allow us to adjust the **budget deficit forecast to BYN 4.5 bn or 2.3% of GDP in 2022.**

Curb inflation and support SOEs

The Belarusian National Bank's **monetary policy is aimed at restraining inflation and supporting the public sector.** In this regard, we believe that in order to support state enterprises and to keep retail lending, **the key rate will be kept at 15% eop** in 2022, provided no additional price hikes occur.

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