

Belarus: A repressed economy

Following 19 years of positive economic growth, Belarus's economy contracted by 3.6% in 2015, partly due to the deep recession in Russia, the country's closest trading partner. With shrinking foreign reserves and an increasing need for loans and investment, Belarus is looking for alternative support in an attempt to temporarily stabilise its economy. However, it remains uncertain if the recession will prompt fundamental changes to President Lukashenko's repressive economic policies.

Belarus's economy: from 'miracle' to recession

After 19 years of uninterrupted, albeit gradually slowing, growth from [1996 to 2014](#), Belarus's economy contracted by an estimated [3.6%](#) in 2015 due to weak external and domestic demand, effectively ending the Belarusian '[growth miracle](#)'. The country is now entering its [second year of recession](#), and the future looks bleak: Economy Minister, Vladimir Zinovskii, has predicted a '[tough](#)' 2016, and the country's Prime Minister, Andrei Kobyakov, in February 2016 warned that Belarus should be prepared for a '[worst case scenario](#)'.

Belarus was the second most developed post-Soviet country, after Russia, in terms of GDP per capita at purchasing power parity (PPP) after the collapse of the Soviet Union in 1991. Thanks to its well-developed physical infrastructure and industrial capacities, the country continued to supply consumer goods to other post-Soviet countries, not least Russia. Minsk has relied heavily on Moscow as its key ally, trading partner and energy provider. It has received [reduced-rate loans](#) and enjoyed the most favourable Russian energy prices in the region, paying three to five times [less](#) for Russian gas in 2007 than neighbouring Poland. Approximately one third of Belarusian export revenues is generated by refining and exporting Russian oil. Russia's subsidies have amounted to up to 20% of Belarus's GDP, and half of Belarus's exports go to Russia.

As Russia's economic support diminishes, Belarus looks for alternative support

However, 25 years after the Soviet collapse, Belarus is among the least developed former Soviet states in terms of building a market economy and conducting reforms, as [Marek Dabrowski](#) (Bruegel) points out. Heavy state interference and a weak private sector have rendered it a 'repressed' economy, ranked 157th among 186 countries in the Heritage Foundation's [2016 Index of Economic Freedom](#). Belarus's economy is very vulnerable to developments in Russia. The on-going Russian [recession](#) has dampened hopes for increased trade between the two countries. Moscow can no longer afford to endlessly [aid its allies](#) and has gradually reduced its oil and gas subsidies to Belarus. At the same time, the falling oil prices have resulted in lower revenues. The energy dependence on Russia seems hard to tackle without wide-ranging reforms: Belarusian heavy industries use very [energy-hungry](#) Soviet-era technologies, and Belarusian citizens have become accustomed to artificially low energy prices.

Shrinking foreign reserves prompt tentative reforms to accommodate IMF demands

In 2016, Belarus has significant debt repayments due. At the same time, the country's [foreign exchange reserves](#) had fallen to US\$4.03 billion by the beginning of February 2016; equal to approximately one and a half months of import cover (below the level [considered safe](#)). As access to financing from Russia is uncertain, in February 2016 Belarus introduced [measures](#) to improve the economy (reduced public expenditure, diversification of exports, increased foreign investments), following the EU's [decision to ease sanctions](#) and ahead of talks with the International Monetary Fund (IMF). However, on 1 March, Belarus [suspended](#) talks with the IMF over a US\$3.5 billion support package and instead announced that it was in the 'final stage' of negotiating a US\$2 billion aid package from the Russia-led [Eurasian Fund for Stabilisation and Development](#). Analysts widely agree that economic reforms in the country are long overdue. However, reforms in key areas could undermine public support for President Lukashenko and increase the risk of social tension, something the government may be [reluctant](#) to risk ahead of September [parliamentary elections](#).



Gross domestic product (current prices) (€ million)												GDP per capita (€)
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
EU-28	11 016	11 502	12 168	12 901	12 986	12 246	12 790	13 173	13 420	13 521	13 920	27 400
Armenia	2.9	3.9	5.1	6.7	7.9	6.2	7.0	7.3	8.3	8.4	8.8	2 911
Azerbaijan	7.0	10.6	16.7	24.1	33.2	31.7	40.0	47.4	54.2	55.8	56.5	6 006
Belarus	18.6	24.3	29.4	33.1	41.4	35.4	41.6	46.2	49.5	55.1	57.3	6 053
Georgia	4.1	5.1	6.2	7.4	8.7	7.7	8.8	10.4	12.3	12.2	12.4	2 770
Moldova	2.1	2.4	2.7	3.2	4.1	3.9	4.4	5.0	5.7	6.0	6.0	1 687
Ukraine	54.1	71.6	89.2	108.6	128.5	87.1	106.4	121.6	142.1	143.5	99.7	2 318
Real GDP growth rate (%)												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
EU-28	2.5	2.0	3.4	3.1	0.5	-4.4	2.1	1.7	-0.5	0.1	1.3	
Armenia	10.5	13.9	13.2	13.7	6.9	-14.1	2.2	4.7	7.2	3.3	3.5	
Azerbaijan	10.2	26.4	34.5	25.0	10.8	9.3	5.0	0.1	2.2	5.8	2.8	
Belarus	11.4	9.4	10.0	8.6	10.2	0.2	7.7	5.5	1.7	1.0	1.6	
Georgia	5.9	9.6	9.4	12.6	2.6	-3.7	6.2	7.2	6.4	3.3	4.8	
Moldova	7.4	7.5	4.8	3.0	7.8	-6.0	7.1	6.8	-0.7	9.4	4.6	
Ukraine	11.8	3.1	7.6	8.2	2.2	-15.1	4.1	5.4	0.2	0.0	-6.8	
Analysis of gross value added by economic activity (NACE Rev. 2), 2004 and 2014												
	Agriculture, forestry and fishing		Industry		Construction		Services					
	2004	2014	2004	2014	2004	2014	2004	2014	2004	2014		
EU-28	2.0	1.6	20.4	18.9	6.1	5.4	71.6	74.1				
Armenia	24.4	20.3	23.8	17.9	16.7	10.1	35.1	51.7				
Azerbaijan	11.8	5.7	41.3	44.9	13.4	13.5	33.4	35.9				
Belarus	10.1	8.9	36.5	30.5	7.3	11.9	46.1	48.7				
Georgia	17.9	9.2	17.6	17.1	8.8	7.3	55.7	66.4				
Moldova	19.9	14.6	19.6	17.5	3.9	4.1	56.6	63.7				
Ukraine	11.5	11.8	27.5	22.7	4.8	2.6	56.3	62.9				
General government net borrowing (-)/net lending (+), relative to GDP (%)												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
EU-28	-	-	-	-	-	-	-	-4.5	-4.2	-3.2	-2.9	
Armenia	-1.5	-1.7	-1.3	-1.5	-0.7	-7.5	-5.0	-2.8	-1.5	-1.5	-1.9	
Azerbaijan	0.1	-0.7	0.4	-0.3	0.0	-0.5	-0.9	0.6	-0.2	0.6	-0.5	
Belarus	0.0	-0.7	1.4	0.4	1.4	-0.7	-2.6	2.1	0.5	0.2	-	
Georgia	0.8	1.4	2.7	0.3	-2.0	-6.5	-4.5	-0.9	-0.6	-1.1	-2.0	
Moldova	0.2	1.5	-0.3	-0.2	-1.0	-6.3	-2.5	-2.4	-2.1	-1.8	-1.7	
Ukraine	-3.3	-1.3	-1.0	-0.6	-1.6	-5.6	-6.3	-2.2	-3.7	-4.1	-4.5	
General government consolidated gross debt, relative to GDP (%)												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
EU-28	-	-	-	-	-	-	-	81.0	83.7	85.5	86.8	
Armenia	32.6	24.4	19.2	16.4	16.4	40.6	40.0	42.2	41.4	40.9	43.6	
Azerbaijan	18.3	12.5	9.4	7.4	6.1	7.7	7.3	7.6	8.2	8.2	-	
Belarus	8.1	8.7	8.4	10.6	21.6	30.7	36.9	23.3	22.9	21.4	23.9	
Georgia	43.8	35.1	27.9	23.1	27.0	34.6	36.8	32.5	32.5	33.9	35.3	
Moldova	33.7	34.0	28.3	23.5	19.4	21.5	26.8	25.6	23.8	22.1	24.8	
Ukraine	23.9	17.1	14.3	11.8	19.1	33.6	38.6	35.1	35.3	38.4	70.3	

Source: Eurostat.