REPUBLIC OF BELARUS

Social and Economic Development in the First Half of 2023*

October 2023

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The EFSD does not publish its opinion on the section "Budget sector and public debt" due to the fact that budget data is provided by the Belarusian side to the EFSD with the stamp "For official use".

September 2023

LIST OF ABBREVIATIONS

BMS – broad money supply
CA – current account of the balance of payments
CIS – Commonwealth of Independent States
EFSD Project Unit – Project Unit of the Eurasian Fund for Stabilization and Development
FAO – Food and Agriculture Organisation of the United Nations
FDI – foreign direct investment
GDP – gross domestic product
GIR – gross international reserves
ILO – International Labour Organisation
MF RB – Ministry of Finance of the Republic of Belarus
NBRB – National Bank of the Republic of Belarus
RB – Republic of Belarus
RF – Russian Federation
SPF – Social Protection Fund
US – United States of America
VAT – value added tax

SUMMARY

In the first half of 2023, the Belarusian economy showed recovery growth. One of the main drivers of growth was stronger domestic demand underpinned by a marked increase in real wages, which significantly exceeded labour productivity growth, and an acceleration in consumer credit.

Inflation continued to decelerate in the first half of 2023 under the influence of moderate inflation in the RF, appreciation of the Belarusian rubel against the Russian ruble, and lower fuel prices and inflation expectations in the context of continued price controls. In these circumstances, the NBRB's monetary policy was aimed at stimulating economic activity by expanding money supply and loosening credit conditions. However, lending remained subdued, while the trend of compression of foreign currency lending and expansion of domestic currency lending continued.

A recovery in domestic demand, which led to a rapid increase in imports, as well as a faster decline in export prices compared to import prices, against the background of significant depreciation of the Russian ruble against the US dollar, resulted in a significant reduction in the trade surplus, with the CA balance turning negative.

Under the baseline scenario of the EFSD Project Unit, in the medium term, the Belarusian economy would continue to operate under the pressure of sanctions faced by the RB and the RF. Against the background of the recovery and the adjustment of economic agents to the changed conditions, real GDP growth is expected to reach 3.6% in 2023. Continued implementation of investment projects in 2024 would support growth at the level of 1.8%. From 2025 onwards, it is expected to approach its potential rate within 1%.

Monetary and fiscal policies are expected to be guided by the priority of macroeconomic stabilisation. Inflation is projected to be around 5% by the end of 2023 and to remain at this level in the medium term. From 2024 onwards, a gradual fiscal consolidation is expected to be implemented through expenditure growth restraint, including a more moderate pace of wage growth in the budget sector.

The most substantial risks to the medium-term forecast are associated with the realisation of new external shocks, including those caused by the negative impact of sanctions and the likelihood of a deterioration in the economic situation in Russia.

Real Sector and Labour Market

In the first half of 2023, the Belarusian economy was recovering from an adverse shock that led to weaker economic activity in 2022. Real GDP growth in this period was 2.0% compared to the same period of the previous year (against a decline of 4.4% a year earlier). At the same time, according to the estimates of the EFSD Project Unit, the recovery of the Belarusian economy is accelerating, as evidenced by seasonally adjusted real GDP growth[1], which was 2.5% in the second quarter of the year, up from 1.3% in the first quarter and 0.8% in the fourth quarter of 2022.

According to the EFSD Project Unit, stronger domestic demand made the main contribution to the real GDP growth (Figure 1). Retail trade turnover rose by 4.6% in the first half of 2023, compared to a decline by 0.4% a year earlier, accompanied by a recovery in demand for non-food products (an increase of 5.9% compared to a fall of 3% a year earlier). Consumer activity was supported by a 3.9% increase in household real disposable income in the first six months of 2023 (compared to a 2.8% decline a year earlier) and a 15.2% increase in consumer credit (compared to an 8.7% decline a year earlier).

Despite a slight upturn in investment activity, the growth rate of investment in fixed capital did not make up for the decline registered a year earlier. The 7.2% growth in investments in the reporting period (compared to a 17.1% decline a year earlier) was mainly due to a significant increase in the cost of purchases of machinery, equipment and vehicles (19.1%), while investments in construction and installation increased by only 1.9 %. Investment financing grew most rapidly at the expense of local and national budgets (45.7% and 14.5% respectively) and own funds of enterprises (10.7%).

In terms of sectors, the most marked growth of value added was recorded in the manufacturing industry. Value added in manufacturing grew by 7.6% (contributing 1.8 p.p. to real GDP growth), accompanied by a slight increase in inventories[2]. Resumption of exports and a recovery of domestic consumption contributed to growth in wholesale and retail trade of 5.5% (+0.5 p.p. of GDP). There was also some recovery in construction, where value added grew by 6.1% (+0.3 p.p. of GDP). Negative trends continued in the IT sector (a decline of 17.3%) amid the ongoing brain drain, as well as in the transport sector (a decline of 5.8%) amid redirection of trade flows and more active use of foreign carriers due to sanctions restrictions.

Despite economic growth, the financial performance of organisations is deteriorating. Profits from sales (-1.5%) decreased against the background of a faster increase in the cost of production (11.6%), including an increase in nominal wages (by 14.3%), compared with sales proceeds[3] (9.9%). One of the factors that have a negative impact on profits of organisations is the exchange rate dynamics. In the first six months of 2023, the Belarusian rubel appreciated by 8.4% against the Russian ruble, the currency of the country's main trading partner. The number of loss-making organisations as of 1 July 2023 was 13.9% of their total number, the level of the same period of the previous year.

The labour market situation was characterised by a decline in the active working-age population, which was reflected in a reduction in the number of people in employment and the unemployment rate in the economy. The unemployment rate[4] continued to decline, and in the second quarter of 2023 it was

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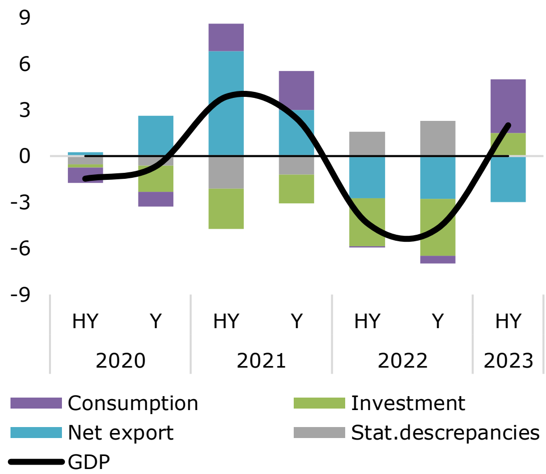
[1] The ratio of the real GDP for the quarter, net of seasonal effects, to the corresponding value for the previous quarter.
[2] Up to 76.6% of the average monthly output (against 71.7% a year earlier).
[3] One of the factors limiting revenue growth could be price controls
[4] Based on a household sample survey according to the ILO criteria

3.4% against 3.7% a year earlier. At the same time, the most noticeable decrease in unemployment was observed among young people (5.8% against 7.1% a year earlier) and in the older age group (2.7% against 4.4% a year earlier). Nevertheless, the number of people in employment continued to decline, and the rate of the decline accelerated somewhat. In the first half of 2023, the average annual number of people in employment decreased by 1.7% against a decrease of 1.5% a year earlier. The highest rates of reduction in the average payroll number of employees were registered in the IT sector[5] (-20.4%), construction (-4.1%), and transport (-3.9%). In general, a decrease in both employment and unemployment may indicate a decline in the number of active working-age population associated with both the retirement of some workers and the outward labour migration from the RB.

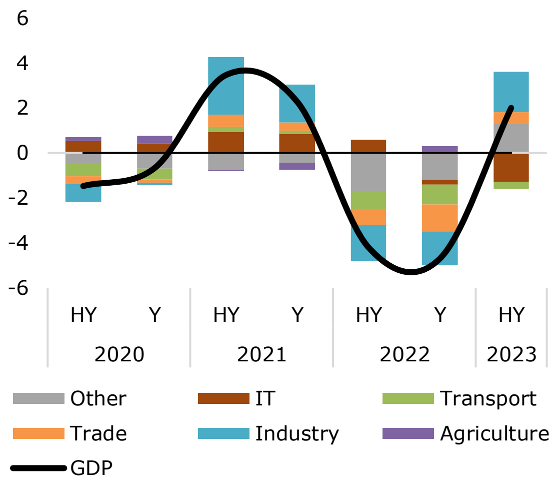
A decrease in the labour force and the dynamics of wage growth in the budget sector led to an increase in the average economy-wide wages. Real wages increased by 7.4% in the first half of 2023 (against a decrease of 0.3% a year earlier), which significantly exceeds the growth rate of labour productivity (2.6%). The highest wage growth rates were registered in industry (12.5%), construction (13.0%), and public administration (14.1%). A decrease in average wages was observed in the IT sector (-12.0%), which is associated with the relocation of highly paid IT specialists abroad.

Figure 1. *Decomposition of annual GDP growth by use components (p.p.)*



Source: Belstat and EFSD estimates

Figure 2. *Decomposition of annual GDP growth by production components (p.p.)*



Source: Belstat

[5] Information and Communication

Inflation and Monetary Policy

Inflation continued to decelerate in the first half of 2023 under the influence of moderate price growth in the RF, appreciation of the Belarusian rubel against the Russian ruble, and lower fuel prices and inflation expectations in the context of continued price controls[6]. At end-June 2023, consumer price growth was 2.9% in annual terms compared to 12.8% as at end-2022 and the NBRB's target of 7–8% (Figure 3). During that period, the core inflation decelerated from 14.0% to 2.0%. In terms of consumer market segments, the main contribution to inflation in the first half of 2023 was made by an increase in prices for food products (3.6%, contributing 1.6 p.p.) and services (6.9%, contributing 1.6 p.p.). At the same time, the contribution of rising non-food prices to headline inflation was negative at -0.3 p.p., including that due to a decline in domestic retail fuel prices (-4.1%)[7].

The sharp decline in the annualised inflation rate was influenced by the effect of a high base, but even without taking this into account, inflationary processes remain subdued in the RB. So, according to the EFSD Project Unit, the annualised inflation rate[8] was about 3% in the second quarter of 2023. Important factors that had a dampening effect on inflation in the RB were a limited rate of price growth in the RF and the exchange rate dynamics. The real effective exchange rate of the Belarusian rubel appreciated by 4.8% in the second quarter of 2023 compared to the corresponding quarter of the previous year. As the negative output gap closes[9] from the second quarter of 2023 onwards, the disinflationary effect of domestic demand would be gradually levelled off. The stabilisation of price growth rates and, probably, the effect of the price controls contributed to a decrease in inflation expectations to 10.9% in annual terms against 15.7% in June 2022[10].

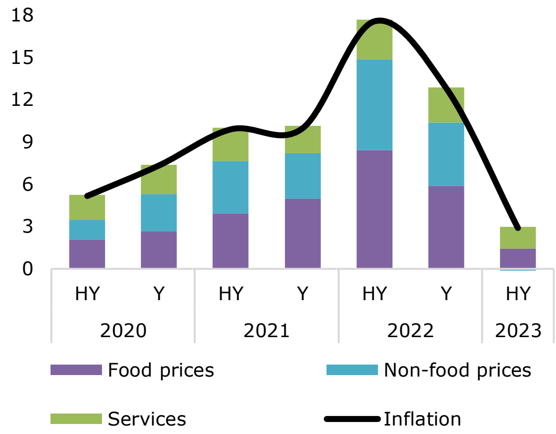
The NBRB's monetary policy was aimed at stimulating economic activity by expanding money supply and loosening credit conditions by maintaining low interest rates. An important factor in the reduction of interest rates under the monetary targeting regime was the formation of structural excess liquidity in the banking system in 2022, in the absence of operations to sterilise it, either through the NBRB's open market operations or its standing facilities. As of 1 July 2023, the annual increase in the rubel base money was BYN 4.7 billion or 37.1%. In this environment, from the second half of 2022 onwards, the interbank market rate declined to 1% per annum (Figure 4), which contributed to a reduction in the interest rate on new term deposits from 10.5% per annum in June 2022 to 2.9% per annum in June 2023, and on new loans from 18.9% to 8.5% per annum. The NBRB's decisions to reduce the refinancing rate (from 12% at the beginning of the year to 9.5% per annum at end-June 2023) and the EVSR prudential standard[11] provided an additional incentive to reduce lending rates.

The easing of the monetary conditions resulted in accelerated growth of monetary aggregates. The broad money supply grew by 24.4% in the first half of 2023 (against an increase of 8.9% a year earlier) (Figure 4). In addition, in the context of low deposit interest rates, economic agents prefer to keep their spare cash in the most liquid forms. With the annual growth of fixed-term rubel deposits at 13.6%,

[6] Resolution of the RB Council of Ministers No. 713 "On Price Controls" dated 19 October 2022.
[7] According to the EFSD Project Unit, the direct contribution to headline inflation is estimated at negative 0.2–0.3%.
[8] The annualised inflation rate is the seasonally adjusted rate of price growth for a quarter, converted to an annual value by raising it to the 4th power. This indicator gives a sense of what the annual inflation could be if the quarterly rate of price growth in the economy persists throughout the year.
[9] According to NBRB estimates
[10] Expected price changes in the coming 12 months according to a household survey commissioned by the NBRB
[11] Estimated value of the standard risk (EVSR). If banks set their interest rates above the threshold specified by the NBRB, the regulator will interpret it as the banks' transition to a risky business model and will establish higher capital adequacy and reserve requirements.

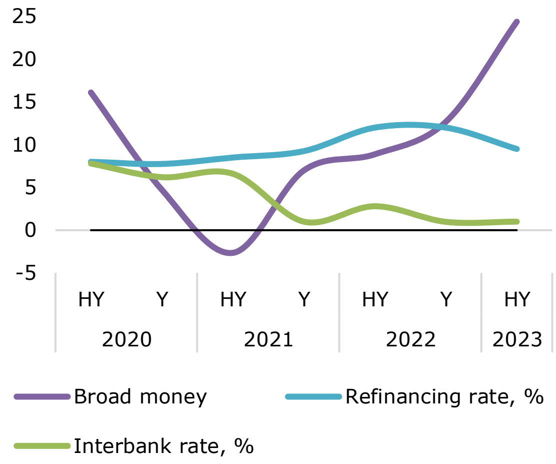
monetary aggregate M1 grew by 56.4%. In general, the share of cash in circulation and transferable rubel deposits increased to 31% of the BMS as of 1 July 2023 (against 25% a year earlier).

Figure 3. *Decomposition of inflation (p.p., y-o-y, end of period)*



Source: Belstat

Figure 4. *Behaviour of monetary indicators (in %, y-o-y, end of period)*



Source: Belstat, NBRB

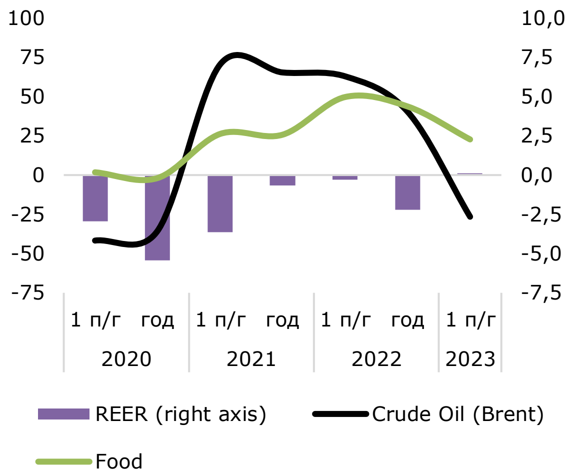
External Sector

The country's external position in the first half of 2023 was mainly influenced by a marked decline in the trade surplus and a slowdown in capital outflows from the country. In the first half of 2023, the CA showed a deficit of USD 1.5 billion (-4.5% of GDP), compared with a surplus of USD 0.5 billion (1.7% of GDP) a year earlier. The transition of the CA from surplus to deficit is driven by a significant decrease in the trade balance to USD 0.2 billion (0.5% of GDP) from USD 2.5 billion (7.7% of GDP) a year earlier, which was not sufficient to cover the primary income deficit as in 2022. At the same time, the primary income deficit decreased slightly in the first half of 2023 to USD 2.2 billion or 6.5% of GDP (against USD 2.5 billion or 7.7% of GDP a year earlier). According to the EFSD Project Unit, the decline in the trade surplus was the result of higher growth rates of physical volumes of imports against the background of stronger domestic demand compared to exports. Another factor that had a negative impact on the trade balance was a faster decline in export prices than in import prices, against the background of the depreciation of the Russian ruble exchange rate against the US dollar. At the same time, a marked increase in the share of the RF in the composition of Belarusian exports should be noted. In particular, the share of exports to the CIS countries (mainly formed by trade with the RF) was 70.5% of total exports in the first half of 2023 against 63.5% a year earlier. In general, the value of exports increased by 8.6% in the first half of 2023 compared to the previous year, and imports by 21.3% (Figure 8).

The financial account of the balance of payments showed net borrowing of USD 0.7 billion or 2.0% of GDP (against net lending of USD 0.9 billion or 2.7% of GDP a year earlier). The traditional source of inflows was foreign direct investment (almost 90% of which is generated by reinvested income), which amounted to USD 1.6 billion or 4.5% of GDP in the first half of 2023 (USD 1.8 billion or 5.5% of GDP a year earlier). The total outflow of portfolio and other investment in the first half of 2023 decreased to USD 0.9 billion (2.5% of GDP) against USD 2.6 billion (8.2% of GDP) a year earlier. These dynamics were largely driven by a lack of growth in trade credits and advance payments made by Belarusian enterprises to non-residents (after an increase of USD 0.5 billion or 1.6% of GDP a year earlier), as well as an increase in accounts payable of Belarusian enterprises to non-residents of USD 0.4 billion (1.1% of GDP) following a decrease of USD 0.9 billion (2.7% of GDP) a year earlier.

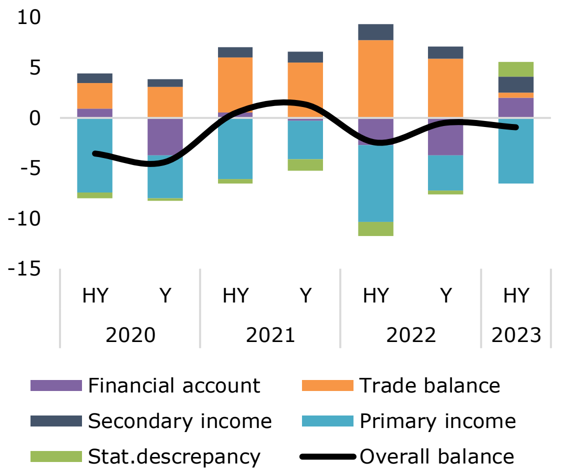
Gross international reserves decreased by USD 0.1 billion over 6 months and stood at USD 7.8 billion as at 1 July 2023 (2.0 months of imports). Despite the pressure of debt repayments and debt service payments, the GIR were supported by the NBRB's purchases of foreign exchange on the domestic market, which, according to the EFSD Project Unit, amounted to about USD 0.2 billion, as well as by the revaluation of assets related, among other things, to the higher world price of gold, which amounted to about 5% in the first half of 2023. RB's fulfilment of its obligations to repay Eurobonds and pay coupon income in Belarusian rubels in February 2023 alleviated the expected pressure on the GIR of around USD 0.85 billion. However, such pressure may materialise later as investors gain access to their funds.

Figure 7. *Dynamics of terms of trade (in %, y-o-y)*



Source: FAO, Belstat, NBRB

Figure 8. *Balance of payments (in % of GDP)*



Source: NBRB, Belstat

Financial Sector

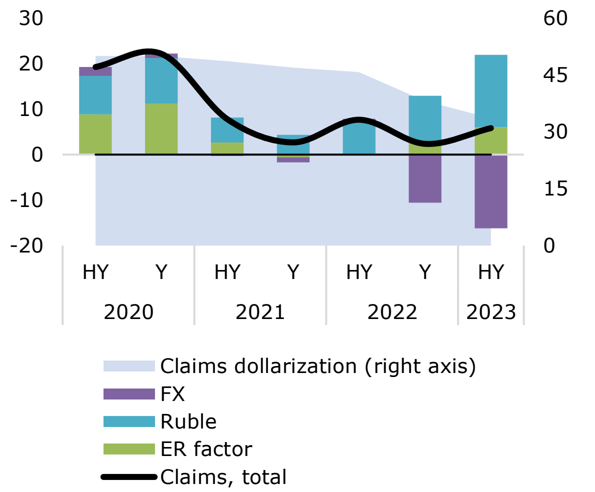
Credit activity remained generally subdued in the first half of 2023, while the trend of compression in foreign currency lending and expansion in domestic currency lending continued. The increase in the claims of banks and the Development Bank was 4.0% in annual terms at end-June 2023, compared with an increase of 4.4% at end-2022. At end-June 2023, the growth of claims of banks (excluding the Development Bank) on the economy was 5.8% in annual terms (against 2.8% at the beginning of the year). Important constraints on expanding banks' loan portfolio included a high level of debt pressure on many borrowers, as well as lack of promising investment projects in the context of the current sanctions. The growth of rubel lending was mainly driven by an increase in short-term debt of state-owned enterprises, probably to replenish their working capital. This is accompanied by a continued shift in lending from foreign currency to Belarusian rubels. Outstanding rubel bank loans increased by 30.3% year-on-year, while foreign currency loans decreased by 37.3%. The main driver of the growth of banks' rubel loan portfolios was lending to both state-owned (+41.7%) and private enterprises (+54.3%), as well as expanded consumer lending (+19.6%). Loans to individuals to finance real estate[12] grew at a moderate pace (+8.7%). The dollarisation of claims of banks and the Development

[12] Housing construction (reconstruction) and purchase, including loans with subsidies covering part of interest and principal payments, which were received under Decree of the President No. 240 “On State Support for Citizens in the Construction (Reconstruction) of Residential Premises”.

Bank on the economy decreased significantly to 32.5% against 38.2% at the beginning of the year.

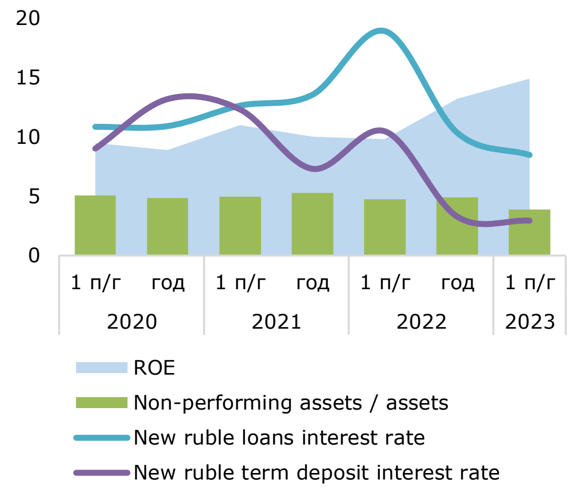
In the first half of 2023, there was an improvement in the asset quality and financial performance of banks. The share of non-performing assets in the first six months of 2023 decreased to 3.8% from 4.9% at the beginning of the year (Figure 10). Banks' profits in the first half of 2023 were up by 89.4% on the same period of the previous year, boosted by an increase in the net interest margin to 4.48 from 3.61 a year earlier and income from the release of provisions made to cover potential losses. The growth in banks' profits led to an improvement in their return on assets and regulatory capital (from 2.0% and 13.2% at the beginning of the year to 2.6% and 16.2% respectively).

Figure 9. *Decomposition of annual increase in banks' claims on the economy (p.p.)*



Source: NBRB

Figure 10. *Banking sector indicators (in %) and interest rates (in % per annum)*



Source: NBRB

Medium-Term Outlook

Under the baseline scenario of the EFSD Project Unit, in the medium term, the Belarusian economy would continue to operate under the pressure of sanctions faced by the RB and the RF. At the same time, it is expected that the adaptation of the economy to the changed conditions would continue, including the establishment of new logistics channels and production links, as well as the implementation of certain investment projects providing for the production of import-substituting products for supply to the RF. Real GDP growth is expected to be 3.6% in 2023. Continued implementation of investment projects would have a positive effect in 2024, with economic growth, although slowing down, at around 1.8%. From 2025 onwards, economic growth rates are expected to approach the potential rate, which is estimated to be within 1% given the structural constraints of the existing economic model.

The expected slowdown in the outflows under the financial account, with a gradual return to the CA surplus, would contribute to maintaining an external economic equilibrium over the forecast horizon. The CA is projected to be in deficit of 1.8% of GDP in 2023, followed by a narrowing of the deficit to 0.3% of GDP in 2024 and surpluses of 0.2% and 0.8% of GDP in 2025 and 2026 respectively. A slowdown in domestic demand growth and some improvement in the terms of trade, against the background of the expected stabilisation of the exchange rate of the Russian ruble, would contribute to a return to a CA surplus. Gradual repayment of previously accumulated bank and corporate debt in US dollars and euros, which would reduce the amount of payments in subsequent years, as well as partial refinancing of debts[13], would contribute to a slowdown in the outflow of funds under the financial account. In this environment, gross reserves would remain at the level of at least USD 7 billion[14] (about 1.7–1.9 months of imports).

Monetary and fiscal policies are expected to be guided by the priority of macroeconomic stabilisation. As wages and domestic demand grow, a slight acceleration in the rate of price growth is expected. However, inflation is projected to be around 5% by the end of 2023 while the targeted range is 7 to 8%. Against the background of growing domestic demand, inflation is expected to accelerate slightly to 5.8% in 2024, with a target parameter of no more than 6%. In the subsequent years, the authorities are expected to aim to keep inflation close to 5%. Taking into account the expected strengthening of pro-inflationary factors, the baseline scenario of the forecast assumes that the NBRB would take steps aimed at a gradual transition from loose to neutral monetary conditions, with a return to the conduct of monetary operations and a stronger role for the NBRB's refinancing rate. BMS growth would slow from the expected level of 18.8% in 2023 to 13.4% in 2024 and 9–11% in the years thereafter.

In 2023, fiscal policy would support the economy through a raise of salaries and wages in the budget sector, with gradual consolidation assumed for 2024 and 2025. The consolidated budget is projected to be close to a balance in 2023, with a general government primary surplus of 1.4% of GDP. Continued fiscal consolidation would ensure a budget surplus of 0.3% of GDP in 2026.

The need to repay and service Government debt obligations would be a key factor of pressure on fiscal accounts. Government foreign currency deposits, including those in Russian rubles, would continue to be an important source of government debt repayment and servicing, given the constraints on the mobilisation of new borrowings. It is assumed that obligations to repay Eurobonds and debts to

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[13] Debt refinancing is expected to be achieved through expanded availability of loans in currencies other than the US dollar and the euro (yuan, Russian ruble).
[14] The Main Monetary Policy Guidelines for 2023 set the threshold minimum value for the GIR at USD 6.0 billion (estimated by the EFSD Project Unit as about 1.6 months of imports).

creditors from “unfriendly” countries would be fulfilled in Belarusian rubels with funds credited to accounts with RB resident banks.

Risks and Uncertainties of the Medium-Term Outlook

Despite the fairly stable dynamics of key macroeconomic indicators under the baseline scenario, the RB economy remains extremely vulnerable to both internal and external shocks. The most substantial risks to the medium-term forecast are associated with the realisation of new external shocks, including those caused by the negative impact of sanctions and the likelihood of a deterioration in the economic situation in Russia. The list of companies and entities subject to sanctions may be expanded, and the impact of imposed restrictions may have more severe negative consequences, among other things due to stronger logistical difficulties in exporting key items and importing components for production, as well as limited access to sources of refinancing the external debt of the banking sector and other sectors. At the same time, the country's own capacity to withstand the impact of additional shocks and to smooth their effects on macroeconomic and financial stability is severely limited.

A factor of uncertainty for the long-term forecast is the ability of Belarusian enterprises and banks to adapt to the changed environment. Important aspects of this process would include progress in redirecting traditional exports to new markets and expanding trade in new products. The issue of improving the efficiency of state-owned enterprises and modernising the industrial sector also remains relevant. In addition, the growing debt pressure on enterprises against the background of lower output may be a significant factor contributing to an increase in banks' non-performing assets. If realised, this risk may call for additional budget expenditures and/or domestic debt to support the banking sector.

Table 1. Belarus: Key macroeconomic indicators

	2022 Actual	2023 Estimate	2024 Forecast	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Real GDP growth	-4.7	3.6	1.8	0.8	0.8
CPI (December, y-o-y)	12.8	5.3	5.8	5.0	5.0
Real wage growth	-1.2	11.2	6.0	2.0	1.6
Money and credit (end of period)					
Broad money, percentage change	12.7	18.8	13.4	10.3	9.3
Credit to the economy, percentage change	2.4	13.4	10.2	8.7	7.9
Policy interest rate	12.0	9.5	9.25	8.0	8.0
Public finance (in % of GDP)					
Budget revenues	25.8	28.0	26.7	26.9	27.0
of which tax revenues	22.5	22.7	22.9	23.0	23.1
Budget expenditures	27.4	28.0	27.2	26.9	26.7
Budget balance (“-” deficit/“+” surplus)	-1.6	0.0	-0.5	0.0	0.3
Primary budget balance[15]	-0.2	1.4	1.1	1.4	1.6
External sector (in % of GDP)					
Current account	3.6	-1.8	-0.3	0.1	0.7
Foreign direct investment	1.9	2.6	2.0	2.0	2.0
Gross reserves, in months of imports of goods and services of the current year	2.2	1.9	1.8	1.8	1.7

Source: national agencies and EFSD estimates

[15] Taking into account SPF funds

Assessment of Gross International Reserve Adequacy for the Republic of Belarus

The experience of past global and regional crises has shown that emerging market economies can be extremely vulnerable to sudden and severe external shocks. Therefore, an important factor in ensuring macroeconomic stability is the accumulation and maintenance of GIR at a level that reduces the negative impact of such shocks on the national economy. The availability of sufficient reserves helps regulators to smooth fluctuations in the foreign exchange market through interventions, thereby maintaining the efficiency of the foreign exchange market, and can also contribute to lowering market participants' negative expectations of sudden and abrupt changes in the exchange rate.

A fairly wide range of indicators can be used to assess the adequacy of reserves as a factor in ensuring macroeconomic stability. The best-known metrics for assessing the adequacy of reserves are the import cover ratio, the ratio of reserves to short-term debt (the Greenspan-Guidotti rule), and the ratio of reserves to money supply. One of the shortfalls of using these metrics in assessing the adequacy of reserves is their focus on one risk factor. Composite indicators are used to overcome this effect and cover a wider range of risks. One of the widely used indicators of this kind is the ARA metric developed by the IMF. The ARA metric indicator includes four components reflecting potential channels of pressure on the balance of payments: export volume, money supply, short-term external debt, and other debt.

The results of GIR assessment for the RB show that the issue of reserve adequacy to ensure macroeconomic stability and offset potential risks remains relevant: the actual reserves in the RB stand at about 70% of their required level according to the ARA metric. While the average actual level of reserves is about USD 8 billion, their lower threshold value according to the ARA metric is about USD 11 billion (Figure 1). However, the EFSD Project Unit considers that when assessing the adequacy of reserves using the ARA metric, it is important to take into account the presence of a significant amount of foreign currency assets that are not reserve assets. The total volume of reserve assets and other foreign currency assets in the RB as at 1 July 2023 was USD 9.0 billion (Figure 2), or 83.2% of the required level according to the ARA metric.

Figure 1 – Actual GIR and their required level according to ARA metric, USD bln

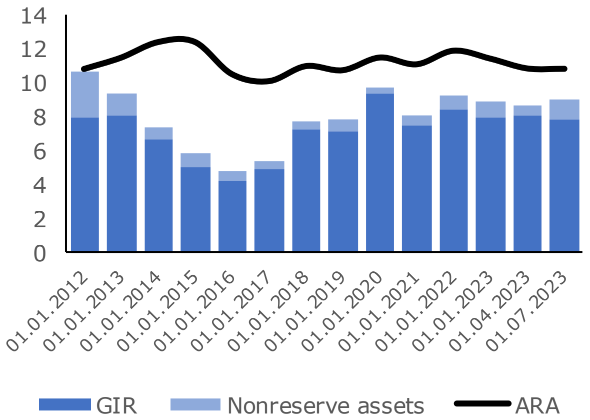
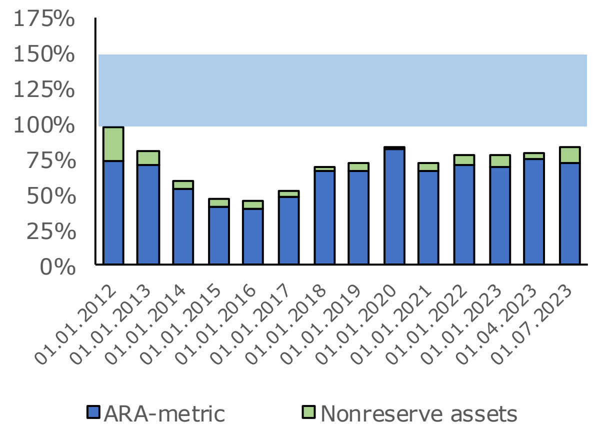


Figure 2 – Reserve adequacy according to ARA metric, in %



Source: estimates of the EFSD Project Unit based on the NBRB data

For the RB, the most prominent risk factor and pressure on the GIR is the high level of external debt, much of which is short-term. About half of the short-term debt is generated by trade credits and advance payments from other sectors (Figure 3). In addition, about a quarter of the short-term debt as defined by the ARA metric is the part of the long-term debt that is falling due in the next 12 months. And a large part of this indicator is made up of upcoming payments to repay government debt (Figure 4). It is important to note that one of the main sources of external debt repayment and servicing are foreign currency deposits of the Government with the NBRB, which form a significant part of the GIR. As at 1 September 2023, foreign currency deposits of the Government with the NBRB stood at USD 2.5 billion. However, they were about USD 5 billion at the beginning of 2020. The NBRB has purchases foreign currency on the domestic foreign exchange market to offset the negative impact of the use of foreign currency deposits of the Government and to maintain the level of the GIR. In an environment where the domestic foreign exchange market is one of the key factors in maintaining the GIR, it becomes extremely important to pursue a balanced macroeconomic policy that ensures the generation of a net supply of foreign exchange in the domestic market by its operators.

Figure 3 – Composition of short-term external debt (by remaining maturity), in %

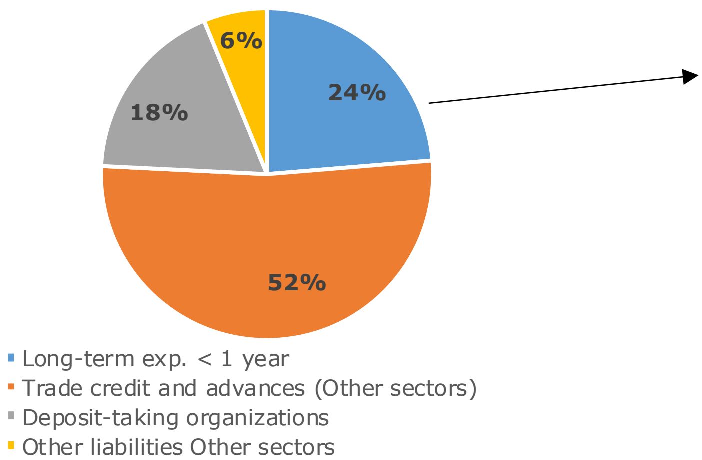
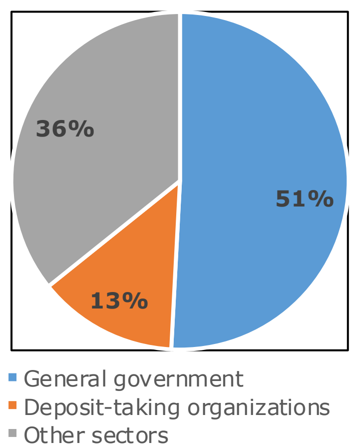


Figure 4 – Composition of short-term part of long-term external debt, in %



Source: estimates of the EFSD Project Unit based on the NBRB data as at 1 July 2023

An important uncertainty factor affecting the assessment of the GIR adequacy is sanctions, which apply to the real and financial sectors, and directly to the general government and the NBRB. On the one hand, their impact significantly limits the ability to raise new debt in US dollars and euros and to refinance debt, including government debt. On the other hand, the sanctions prompted economic agents to switch to using other currencies, mainly the Russian ruble, in their business operations. It should be noted, however, that the Russian ruble is not a reserve currency, and its holdings are not included in the GIR. Nevertheless, such assets can be an important factor in maintaining economic stability in the event of adverse shocks.