

In the shadow of a potato crisis: problems of the Belarusian economy

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Belarus's key macroeconomic indicators for the first half of the year reveal a distinct economic slowdown. The country's GDP grew by only 2.1% year-on-year during this period. This modest increase stands in contrast to the 5% year-on-year growth recorded at the end of the first half of the previous year and reflects a steady loss of economic momentum in recent months. For comparison, GDP had grown by 2.8% from January to April and by 2.5% by the end of May this year. The slowdown is also evident in industrial production, which in the first half of the year was just 0.3% higher than in the corresponding period of the previous year. In contrast, the end of April and May showed respective increases of 1.4% and 1%. In the corresponding months of the previous year, growth was significantly higher, fluctuating between 6% and 8%. At the same time, inventories of unsold finished goods are rising, particularly in large state-owned industrial enterprises. Weaker performance has also been recorded in agriculture – particularly in food production – where, as in the industrial sector, growth dynamics have slowed down markedly.

In foreign trade, a trend of deepening deficit has been observed for several months. While the total trade value remains similar to that recorded in the first half of 2024 (approximately \$41 billion), the structure of the trade balance has shifted unfavourably – in the first half of this year, the deficit nearly doubled (from \$1.7 billion to \$3.1 billion). Trade relations with countries outside the Commonwealth of Independent States (CIS) are proving particularly disadvantageous for Minsk. Due to Western sanctions, the Belarusian statistical office has not published detailed data for several years. Despite this, it has been revealed that from January to June exports to non-CIS countries fell by \$700 million, while imports increased by nearly \$800 million, resulting in a negative trade balance of approximately \$4.2 billion. These developments have also been accompanied by rising inflation, which reached 7.3% in the same period – up 1.5 percentage points compared to the first half of the previous year.

If the negative trends of recent months continue, Belarus faces the risk of an economic crisis. The primary drivers of such a scenario would be the declining demand in Russia, which accounts for approximately 70% of Belarusian exports, and the lack of prospects for the lifting of the EU trade embargo.

Commentary

- **Clear signs of a downturn in foreign trade currently represent the main threat to the stability of Belarus's economy.** This is due to the declines recorded in recent months in

the sale of agricultural machinery, trucks, and other products to Russia. If lower demand in that market persists, it could, in the coming months lead to a further deterioration in the condition of Belarusian industry, which accounts for approximately 20% of the country's GDP. Meanwhile, poor results in trade with non-CIS countries indicate, on the one hand, the effectiveness of Western sanctions (which have reduced the EU's share in Minsk's trade from over 30% to 5% over the past five years), and, on the other, highlights the very limited potential of the so-called 'expansion' of Belarusian exporters into the markets of Africa, Asia, and South America as declared by Minsk.

- **A serious risk is posed by inflation, driven by excessive wage growth.** The large-scale emigration following the political crisis of 2020 (up to 600,000 citizens left the country), combined with demographic decline, has led to a labour shortage in the domestic market – the number of job vacancies now exceeds 200,000 (see '[A depopulating country. Belarus's demographic situation](#)'). The wage increases offered by employers in an effort to maintain staff stability (according to the most recent data, the average wage growth in May this year amounted to nearly 20%) are a pro-inflationary factor, also fuelling demand for imported goods, which further deepens the trade balance deficit. Independent Belarusian analysts forecast that by the end of the year, inflation may reach double digits, exceeding the level projected by the Belarusian authorities by more than 5 percentage points.
- **There appears to be little indication of any reversal or slowdown in the downward trends.** The marginal GDP growth that remains is driven primarily by domestic investments, including in construction. However, given the limited resources of both the state budget and local companies, these cannot form the foundation of economic development. Effective anti-crisis measures from the authorities are also unlikely – the government's incompetence in this area was clearly demonstrated by its response to the severe potato shortage that has persisted since the spring, caused by large-scale exports to Russia where higher prices could be obtained. Initially, Alyaksandr Lukashenka publicly threatened officials, then allowed potato imports from the 'hostile' EU (which he often criticises for its sanctions policy), and finally imposed hefty fines on retail chains and wholesalers failing to deliver staple vegetables on time.