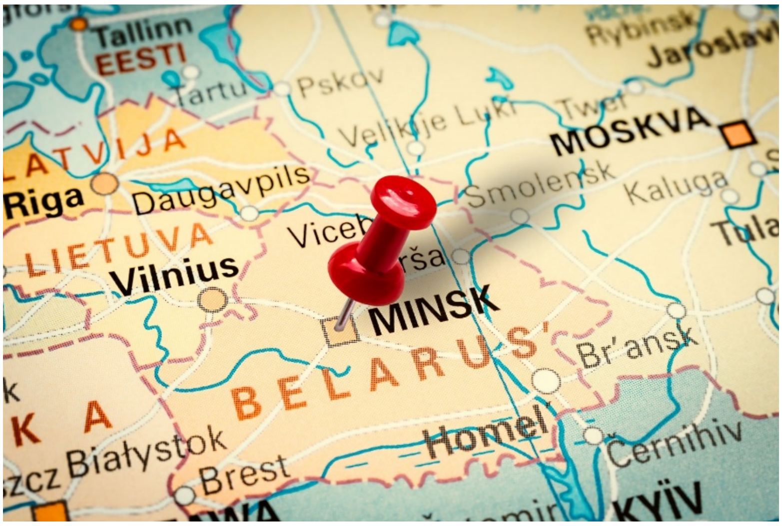
STUDY

Requested by the AFET committee

The Economic Reconstruction of Belarus: Next Steps after a Democratic Transition



Authors:
Christopher A. HARTWELL, Kateryna BORNUKOVA,
Dzmitry KRUK, Benedikt ZOLLER-RYDZEK

European Parliament coordinator:
Policy Department for External Relations
Directorate General for External Policies of the Union
PE 653.663 - March 2022

EN

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

European Parliament

STUDY

The Economic Reconstruction of Belarus: Next Steps after a Democratic Transition

ABSTRACT

The economic performance of Belarus has been unimpressive ever since the fall of the Soviet Union, due mainly to the country's lack of serious structural reforms. This study examines the consequences of this benign neglect should a democratic transition occur and attempts to understand the assistance that may be required to help Belarus successfully transform. Unlike the transformations which began in Central Europe during 1989, though, Belarus' potential transition is complicated by immense Russian pressure. Hence, the provision of much needed assistance will be highly dependent upon Russia's stance towards a democratic transfer of power. This study examines its possible responses to understand how the EU can best be involved in the long-delayed Belarusian transformation and also how much assistance may be required.

EP/EXPO/AFET/FWC/2019-01/Lot1/R/03

EN

March 2022 - PE 653.663

AUTHORS

- Christopher A. HARTWELL, International Management Institute, ZHAW School of Management and Law, Switzerland;
- Kateryna BORNUKOVA, BEROC Economic Research Center, Ukraine;
- Dzmitry KRUK, BEROC Economic Research Center, Ukraine;
- Benedikt ZOLLER-RYDZEK, International Management Institute, ZHAW School of Management and Law, Switzerland

PROJECT COORDINATOR (CONTRACTOR)

- Trans European Policy Studies Association (TEPSA)

This study was requested by the European Parliament's Committee on Foreign Affairs (AFET).

It was commissioned and completed before the start of the conflict in Ukraine in February 2022. Therefore, it does not take into account the effects of the conflict.

CONTACTS IN THE EUROPEAN PARLIAMENT

Coordination: Amelia PADURARIU, Policy Department for External Relations

Editorial assistant: Grégory DEFOSSEZ

Feedback is welcome. Please write to amelia.padurariu@europarl.europa.eu

To obtain copies, please send a request to poldep-expo@europarl.europa.eu

VERSION

English-language manuscript completed on 28 March 2022.

This paper is published on the European Parliament's online database, 'Think Tank'

ISBN: 978-92-846-9153-1 (pdf)
doi: 10.2861/137837 (pdf)
Catalogue number: QA-01-22-204-EN-N (pdf)

ISBN: 978-92-846-9152-4 (paper)
doi: 10.2861/757763 (paper)
Catalogue number: QA-01-22-204-EN-C (paper)

Table of contents

List of abbreviations

BYN	Belarusian rouble
CEE	Central and Eastern European
CSO	Civil society organisation
DCFTA	Deep and Comprehensive Free Trade Agreement
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross national income
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information technology
LULUCF	Land use, land-use change, and forestry
MFN	Most-Favoured-Nation
NATO	North Atlantic Treaty Organization
NBB	National Bank of Belarus
NDC	Nationally Determined Contribution
NGO	Non-Governmental Organisation
NPP	Nuclear Power Plant
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
UK	United Kingdom
USA	United States of America
USAID	US Agency for International Development

VET	Vocational Education and Training
WGI	World Governance Indicators
WTO	World Trade Organization

Executive summary

A laggard in terms of its structural transformation, Belarus has conducted only limited economic and political reforms since the Soviet Union's dissolution. Expansive growth during the 2000s quickly ran out of steam with the global financial crisis. The country's subsequent economic crisis in 2015-2016 was a further blow to the regime's neo-Soviet economic policies, as it was the first to hit lower income families almost exclusively. Events of August 2020, namely the disputed Presidential election which left 'Europe's last dictator' Alexander Lukashenko in power for a new term, have created an uncertain reality for Belarus. Lukashenko's increasing international isolation has coincided with his move to deepen relations with Russian leader Vladimir Putin, thereby heightening already extensive economic ties with Russia and threatening once again to delay much-needed reforms.

These necessary reforms are legion, revolving around both macro and micro economic issues:

- **Macroeconomic stabilisation:** The annual average growth rate throughout the last decade (2012-2021) has been around 0.6 %, implying prolonged economic stagnation. Hence, the difficulties in justifying a much-needed major social spending programme, coupled with the rapid build-up of debt to Russia, mean that the country is facing a fiscal cliff-edge in the short to medium term.

- **Structural weaknesses***:* The lack of property rights and rule of law in Belarus are hampering development of the private sector, as well as crushing the country's business environment. Overall, the state is far too involved in the economy, even where it does not have a direct stake.

- **State-owned enterprises (SOEs):** The SOE sector dominates Belarus' economy, causing inefficient production, misaligned managerial incentives and excess employment. Given the use of SOEs as a social welfare programme, not only has reform been very difficult to achieve, but this has also been further exacerbated by the absence of any political will for such an undertaking.

- **Additional governance issues:** Agriculture has been a bright spot for Belarus, but the absence of state dominance in this sector would make it even more productive and effective, especially given opportunities for technological upgrading.

- **Dependence on Russia:** Since the 2014-15 Western sanctions on Russia (and counter-sanctions from Moscow), Belarus has become more dependent on Russian oil and gas. Moreover, it has acted as a 'launderer' of prohibited goods from the West to Russia.

Given these issues, in the event of long-delayed economic and political transformation being initiated in a future beyond Lukashenko and his policies, the possibilities for Belarus will be reliant not only on the then current state of Belarus' economy, but also crucially on the Russian response. In particular, given the country's dependence on Russia, we attempt to understand what the trajectory of Belarusian transformation could be under three separate scenarios of Russian response: restrained; critical; and openly hostile.

The centrepiece of this examination is a model, designed in accordance with the International Monetary Fund's financial programming framework, exploring the Belarusian government's short to medium-term needs under these three scenarios. This eclectic approach combines, in a single framework, a wide range of economic indicators, allowing us to simulate the shocks associated with different Russian attitudes towards the Belarusian democratic transition; as these responses run beyond typical economic logic (i.e., inputs required for a model of this type), they call for assumptions about their economic impact, which we make explicit. In particular, the model considers a series of crucial reforms to be undertaken as transition is initiated, including budget support for macroeconomic stabilisation (time-limited), state-owned enterprise reforms and emergency safety net measures for the workforce, with additional measures contemplated depending on the Russian response.

Not unexpectedly, our analysis demonstrates that the scenario where Russia adopts a restrained approach ends up being the best for Belarus. This helps the country to move its transformation along much more quickly than the other more critical scenarios.

In this first scenario, we envisage that approximately EUR 3.15 billion would be required for Belarus to target its highest priority reforms, focusing *inter alia* on: budgetary support to generate fiscal space; targeted and improved unemployment; adjustment assistance for SOE reforms; as well as additional technical assistance for structural modernisation and the energy sector.

For the second scenario, featuring a critical Russia, financial assistance would increase significantly to EUR 13.378 billion. Additional funding would be required for current account stabilisation and filling the gap left by the withdrawal of Russian energy subsidies.

In the final worst-case scenario, with an openly hostile Russia, the level of support would increase to EUR 25.965 billion, projected over the first four years of transition. This would reflect both the country's limited resources and a likelihood that the new government would be facing a much worse economic situation than initially envisaged. However, the collapse of the unviable Belarusian economy could also provide an opportunity to revitalise the country's prospects for growth. In this situation, EU assistance would be directed towards minimising the humanitarian cost and helping the country back on its feet after a 'hard landing'.

As noted, the wide range of funding levels is predicated mainly on high priority reforms and as such they should be considered as lower bounds, rather than upper limits, due both to the Russian regime's unpredictability and the state of Belarus' economy at the time of transition.

In order to ensure that the Belarusian transformation is successful, no matter which scenario plays out, the European Union must be prepared to back Belarus' political leaders with actions and funding. Following Poland's experience in the early 1990s or even more recently Ukraine from 2014-2015, with concerted international efforts a financial crisis can be avoided and the most traumatic disruptions of transition mitigated. The road ahead is not easy for Belarus in any scenario, but the European Union can help to provide the assistance and stability needed for the country to overcome any external obstacles. The rest will then be up to the Belarusian people.

1 Introduction

A laggard in terms of its structural transformation, Belarus has conducted only limited economic and political reforms since the Soviet Union's dissolution. While its need for structural and institutional reforms is universally acknowledged, the government has been slow to implement any agenda for change, focusing instead on stability and continuity. Favourable external conditions led to a very consistent but slow pro-poor growth trajectory, as Belarus successfully reduced poverty from 41.9 % in 2000 to 5.2 % by 2010, as measured by its national definition (Dobrinsky et al., 2016). However, this expansive growth in the 2000s quickly ran out of steam during the global financial crisis, as the country's capital-accumulation strategy led first to excessive capital investment and then necessarily a decline in expected return. This was combined with badly directed investment in areas of little benefit to the overall economy.

The country's own economic crisis in 2015-2016 was a further blow to the Belarusian regime's neo-Soviet economic policies, being the first crisis to hit lower income families almost exclusively (Bornukova et al., 2019). Fallout from this crisis ultimately persuaded the government to commit to macroeconomic stabilisation in its monetary and fiscal policies (Kłysiński, 2017). The National Bank of Belarus (NBB) abandoned a fixed exchange rate for the Belarusian rouble and planned a transition to inflation targeting during 2016. Despite this, the private sector's position remains tenuous: the manufacturing sector has never been privatised and other sectors compete heavily with State-Owned Enterprises (SOEs), which produce over half of Belarus' Gross Domestic Product (GDP). Investment in the less efficient SOE sector has continued, often at the cost of more public debt, decreased macroeconomic stability and loss of competition benefits, while at the same time not enabling sustained growth. Belarus' enthusiastic moves towards creating the Eurasian Economic Union (EAEU) also closed the door on substantive integration with the European Union (EU) and left its markets tied closely with the fortunes of Russia (and, to a lesser extent, Kazakhstan). In the 2010s, the average GDP growth rate was 0.9 % per annum, while income divergence with its more successful neighbouring countries (e.g., Poland, Lithuania, Latvia) created migration pressures (Kulesa and Kaźmierkiewicz, 2021).

Events of August 2020 in Belarus, namely the disputed Presidential election which left 'the last dictator in Europe' Alexander Lukashenko in place for a new term, have created an uncertain reality for Belarus. The mass backlash, both internally and from the international community, against the 'neither free nor fair' (and thus unrecognised) elections, led in the first instance to an unprecedented mobilisation of Belarusian civil society. More worryingly, this was accompanied by mass repression by state organs as well as a series of increasingly draconian edicts and manoeuvres by the regime, including the diversion of a European Union Member State aircraft flying between two EU Member State cities simply to arrest dissidents who were inconvenient for the regime.

The increasing international isolation of Lukashenko, typified by sanctions and the moratorium on new projects by international donors, has coincided with his move to become closer to Russian leader Vladimir Putin. Dependence on Russia is a defining feature of Belarus' economy, as Russia remains the top market for Belarusian exports, 45 % of which went to Russia in 2020. Belarus is also bound to Russia via a number of formal treaties, including the Union State Treaty (since 1999), the Customs Union of 2010 and the Eurasian Economic Union (since 2015). Belarus is also highly dependent on Russian oil and gas, both for its own energy production and for petrochemical exports to the EU, United Kingdom (UK) and Ukraine. Russia also provides financial support to Belarus, with 60 % of its national foreign public debt owed to Russia or Russia-dominated lenders (Eurasian Development Bank and Russian institutional investors). Finally, Russia provides politically motivated support to Belarus in the form of subsidies through below-market energy prices, which amounted to over 10 % of GDP annually in the 2000s, but have more recently fallen below 5 % of GDP (even below 1 % in 2020, according to Guriev (2020)). As these subsidies have ebbed and flowed, so has the Belarusian economy: they allowed the country to enjoy dynamic economic growth in the 2000s, while their withdrawal during the global financial crisis and Russia's own crisis in 2015 (occasioned by international sanctions following its invasion of Ukraine) contributed to the country's subsequent slowdown. At the same time, dependence on Russian goods has brought about an increase in Russian influence over Belarus (Sejersen, 2019).

The purpose of this study is to examine possibilities for the future of Belarus should it begin a long-delayed economic and political transformation away from the Lukashenko years and his policies. Our remit is not to examine the possible causes such a transformation, but rather to take this as the starting point for Belarus' political and economic evolution – if and when it occurs. Examining the Belarusian economy's current state and various structures put in place over the past 30 years (and, in some cases, before), our analysis will attempt to detail what Belarus would need so as to undergo a successful transformation, as has taken place in neighbouring countries, the Baltic States and Poland. What will the economic needs be for the new government to manage its withdrawal from the economy and, critically, for the private sector to emerge? What are Belarus' priorities and how can external donors assist in this process? What lessons from the past 30 years of transition can be brought to bear in Minsk?

Given the importance of Russia to the Belarusian economy, as just noted, our key focus will be to examine what may happen to the trajectory of Belarusian transformation under three potential scenarios for Russian response: restrained; critical; and openly hostile. The way in which Russia chooses to respond to the (as yet theoretical) transformation of Belarus will have massive ramifications across the transition, with regard to *inter alia* resources, external donor support and – in the worst-case scenario – the territorial integrity of the country (i.e., if Russia undertakes military action against the country). Only by exploring these three scenarios will we have a better sense of Belarus' overall financial needs so as to undertake a successful transition with the minimum of societal stress.

The centrepiece of this examination is a model exploring the Belarusian government's short to medium-term needs under these three scenarios. This model is designed in accordance with the International Monetary Funds' (IMF) financial programming framework (Barth et al., 2002). This eclectic approach combines in a single framework a wide range of economic indicators, allowing us to see their changes in both real and nominal terms. With this model we can also simulate the shocks associated with different Russian attitudes towards the Belarusian democratic transition; as these responses run beyond typical economic logic (i.e., inputs required for a model of this type), they call for assumptions about their economic impact, which we spell out in regard to each scenario.

Exploring the financial constraints of Belarus, predicated on the need for rapid macroeconomic stabilisation and immediate structural reforms, our model focuses on areas such as: budget support (time-limited); state-owned enterprise reform; emergency social safety net measures to cope with the dramatic disruptions of transition; and rapid reforms in the energy sector. This analysis was based on our own knowledge and reading of the Belarusian economy as well as the best practices of transition economies during the late 1980s and early 1990s in Central and Eastern Europe, supplemented with a series of interviews with Belarusian analysts, international financial organisations and various European Union bodies[1].

Our analysis demonstrates not unexpectedly that the scenario where Russia is restrained ends up being better than the other two scenarios for Belarus in facilitating much quicker movement along its transformation path. In this case, we estimate that approximately EUR 3.15 billion would be required to enable Belarus' highest priority reforms to be targeted, a number close to the EU's EUR 3 billion already

[1] Over the period of the writing of this paper, our team spoke with representatives of the EBRD, the World Bank, the IFC, the European External Action Service, and various representatives of Belarusian civil society. Names and titles have been omitted for purposes of anonymity and to avoid recriminations.

offered to the country in May 2021 in the event of democratic transition[2]. In the worst-case scenario of an openly hostile Russia, this amount increases drastically to EUR 25.965 billion over the first four years of transition, reflecting both the country's limited resources and the likelihood of the new government having to deal with a much worse economic situation than previously imagined. This wide range of estimates is predicated mainly on reforms which we consider to be high priority on the basis of Belarus' current situation and drawing on the transition experience of the 1990s. They include first and foremost macroeconomic stabilisation, followed by laying the basis for institutional reforms. Given this emphasis on urgent needs, the estimates presented here should be thought of as a lower bound, rather than an upper limit.

The rest of this study is structured as follows: Section 2 describes the current state of Belarus' economy across a broad set of metrics, while Section 3 delves into the possible effects which could result from the three scenarios of Russian response. Taking these three scenarios as baselines, Section 4 then explores the donor landscape and possible sectoral priorities for a new Belarusian government, before creating a range of estimates for technical and other assistance required for the country. Section 5 concludes with policy recommendations going forward, including how the EU can help to support reform processes.

[2] This amount was noted by European Commission President Ursula von der Leyen on May 27, 2021, in the wake of the Ryanair incident, and further developed in a document from the Commission released on May 28, 2021 and available at https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2685.

2 The current state of the Belarusian economy

As mentioned in the Introduction, Belarus has seen a growth trajectory squarely in the middle of those displayed by its former Soviet peers, but significantly less than almost all of its neighbours since the fall of communism 30 years ago. This section delves deeper into this growth performance, primarily to examine its macroeconomic and financial drivers and what stabilisation measures might be necessary at the outset of any transition. However, we will also go beyond any macro-stabilisation needs to look at the more micro-foundational determinants of Belarus' current economic state, including: its structural weaknesses; the preponderance of SOEs; other governance issues throughout the public sector; and the external situation *vis-à-vis* Russia. In this way, we hope to present a more holistic picture of the opportunities and challenges Belarus will face during any democratic transition.

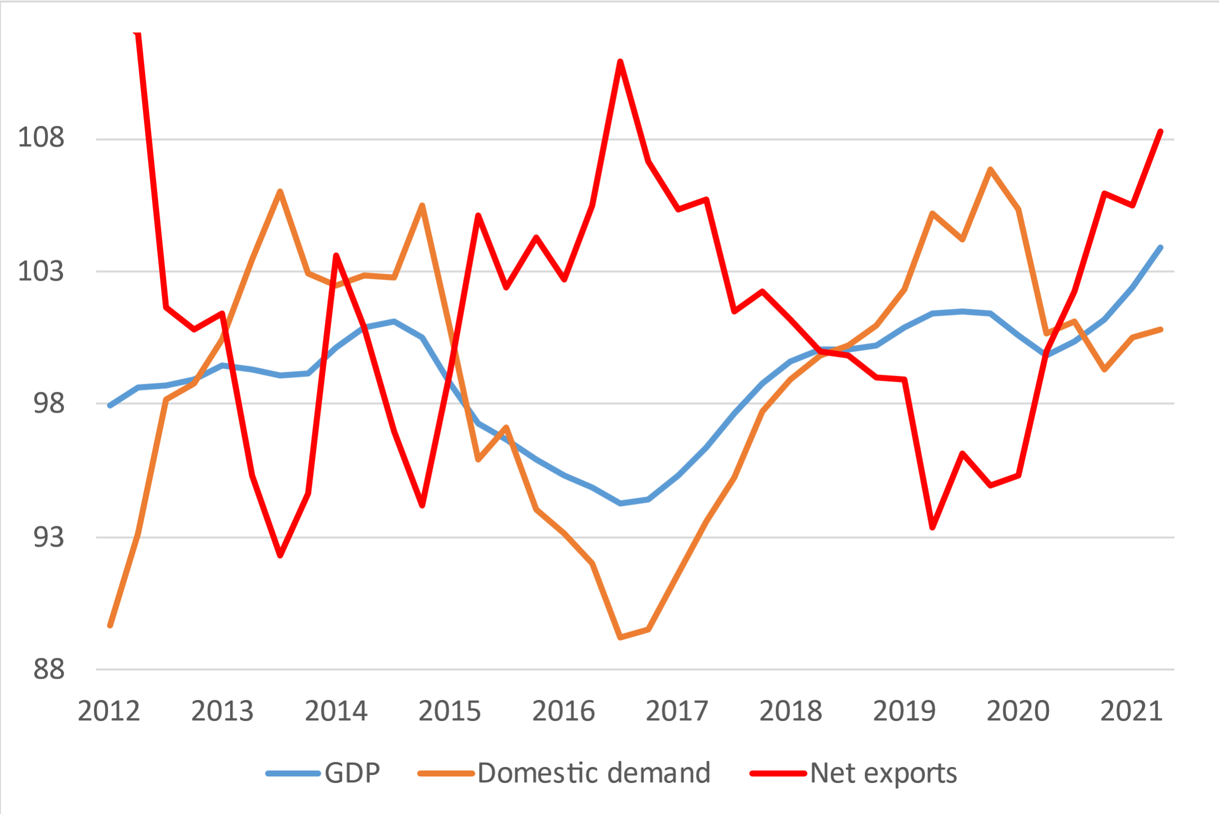
2.1 Macro-financial situation

2.1.1 The short-term view

A relatively calm environment of anaemic growth was disturbed by numerous powerful shocks in 2020, including an energy dispute with Russia and, of course, the COVID-19 pandemic. Recession was avoided, though, by a concerted effort to smooth output, including ignoring COVID-19 in terms of public healthcare, a price the Belarusian authorities were ready to pay in the social dimension so as to maintain the production volume. Firms, mainly SOEs, were pushed to sustain production despite a severe drop in demand (especially foreign demand). Moreover, maintenance of employment and wages by the authorities was achieved by supporting consumer demand to avoid secondary, that is demand-induced, losses in output.

As the second half of 2020 started, foreign demand began to recover rapidly, so much so that by year-end the physical volume of exports had been restored to pre-COVID levels. Furthermore, continuing global recovery in 2021 allowed Belarusian producers to see higher demand due to post-COVID logistic and supply-chain disruptions. Additionally, a post-COVID environment of increasing commodity prices secured an additional positive shock for Belarusian producers. At a macro level, this led to improving trade conditions for Belarus. The latter together with flexible price-setting facilitated expanding market shares in some geographical destinations for Belarusian producers. A sharp improvement in the stance of net exports led to a curbing of recession in 2020 and better still secure an export-led recovery in 2021 (see Figure 1 below).

Figure 1. GDP and its Demand Components, Index, 2018=100



Source: Authors' own calculations based on Belstat data.

The story of this export boom masks a considerably less attractive domestic situation. Both consumer and investment demands contracted significantly during the COVID-19 recession and are still far from their pre-COVID levels. Consumer demand contracted by around 6 % between peak and trough in 2019-2020, before stabilising to some extent. To date it is still below its pre-COVID level (average in 2019) by around 2 %. On the one hand, it may be perceived as a rather natural trend due to shocks and COVID-19 lockdowns. On the other hand, it conflicts with the dynamics of actual wages and disposable income, which are in real terms around 13 % higher in comparison to pre-COVID-19 levels.

Equally, from an investment perspective, prospects for the country look bleak. Consequences from the 2020 political crisis have increased precautionary savings, but also caused firms to refrain from purchasing durable goods, considering the profound lack of financial sources for business fixed investment. SOEs have had to cut their investment activity due to a deterioration in their financial positions during COVID-19. Although the export boom gave rise to some improvement here, most firms are still far from presenting acceptable voluntary investment prospects. Access to banks' capital for investment purposes is effectively closed (apart from cases of directive mechanisms), as banks have systemic liquidity challenges and hence either refrain from credit expansion or even cut the volume of their credit portfolios. Furthermore, budgetary investment activity is rather weak due to more rigid fiscal restrictions.

Moreover, there is a direct link between investment activity and the political situation. Polls and surveys report that a large share of firms (mainly private) prefer to focus just on supporting the current standing of their business (Marozau et al., 2021, Smalenskaya et al., 2021). This general lack of ambition for expanding is to a large extent explained by huge uncertainty associated with the ongoing political crisis, which naturally inhibits new investments.

The SOE sector's troubles have also strained financial stability in Belarus generally, as the government was forced to fall back on selective restructuring of debts for state-owned enterprises in 2020 (de-facto bailouts, as in the case of the Belarusian metallurgical giant *Byelorussian Steel Works* (BMZ), where the government restructured debt valued at EUR 880 million, 70 % of the total). Additionally, the government prolonged mechanisms for direct injections of liquidity through directed lending of approximately EUR 880 million (against a planned amount of approximately EUR 260 million).

Another systemic financial weakness, namely foreign currency liquidity, has also been substantially aggravated over the past year. Deposit withdrawal by households, with a special emphasis on foreign currency deposits, became the most sensible economic outcome of households' response to the political crisis. According to the National Bank of Belarus (2021a), since the beginning of 2020, withdrawals have totalled more than 30 % of their foreign currency deposits (about EUR 2.2 billion). This created a massive shock to the banking sector and currency market. Between August and October 2020 this situation was close to triggering a banking panic and debt crisis, which the authorities just managed to avoid through massive injections of foreign currency liquidity at the expense of international reserves. This together with subsequent cuts in foreign currency credit portfolios by banks made it possible to cushion the threat. Nevertheless, the issue of liquidity in foreign currency stayed on the agenda into the middle of 2021.

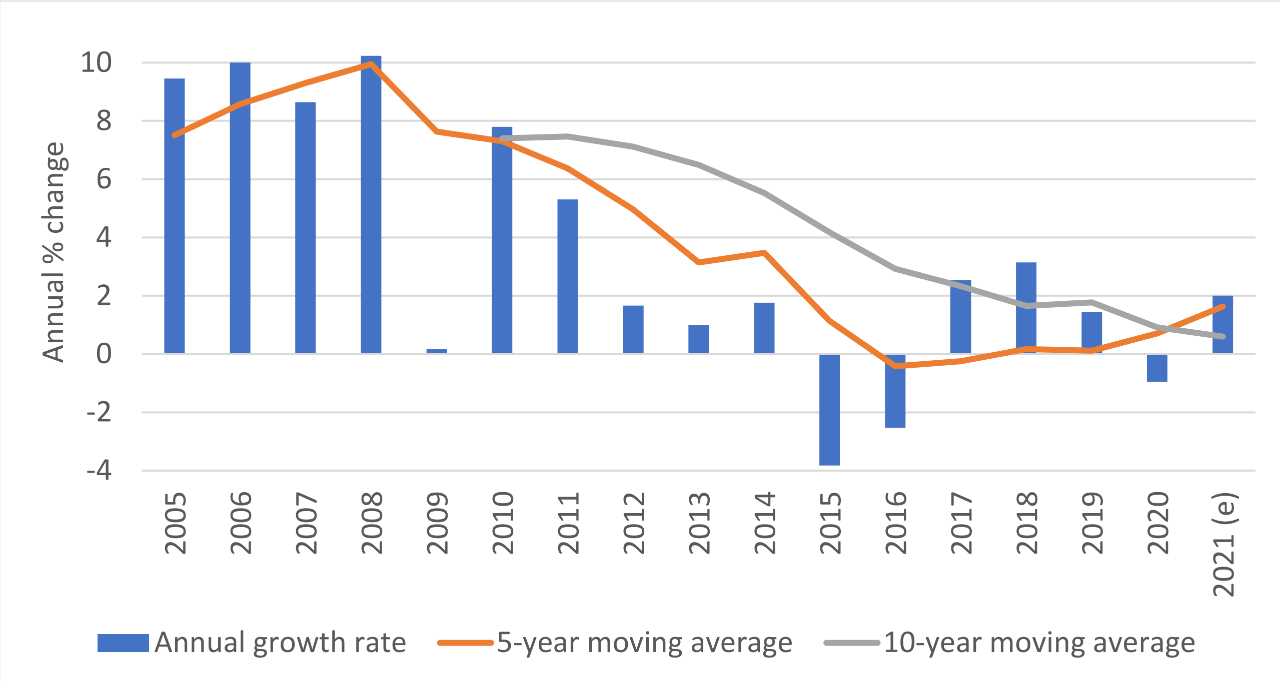
These issues combined to cause output contraction in 2020 by slightly less than 1 % (Belstat, 2021a). In 2021, the continuing improvement of net exports outweighed losses of output due to depressed domestic demand, leading to output growth of 3.5 % in the first quarter, with a decline in exports, coupled with contracting domestic demand, leading to a lower projected output growth rate at year-end of around 2 % (Belstat, 2021a).

2.1.2 The Medium term

The country suffers from a meagre growth environment, with an average annual growth rate throughout the last decade (2012-2021) at about 0.6 %. In other words, the economy has experienced prolonged stagnation (see Figure 2 below). Breaking this vicious cycle of stagnation requires deep institutional reforms aimed at promoting the roles of human capital and private sector. However, the authorities' political preferences make such an approach unacceptable, resulting in sustained poor productivity gains and low economic capability for generating growth.

This state of affairs will inevitably lead to a poor projected growth rate between 0-1 % over the coming years. Before COVID-19, different methodologies estimated that the Belarusian economy would grow between 1-4 % annually, with a near-consensus estimate of 2.5 % (Kruk, 2020). However, the pandemic's legacy, continuing political crisis and Russia's tax manoeuvring to reduce oil export duties, have all combined to move this estimate down. More importantly, such a meagre growth environment is a huge problem for Belarus in many respects, demonstrating not only that the country's economic model cannot deliver development, but also that Belarus cannot close the well-being gap *vis-à-vis* other countries in Europe (see Figure 3 below)

Figure 2. Growth Rate of Output, 2005-2021, in annual %

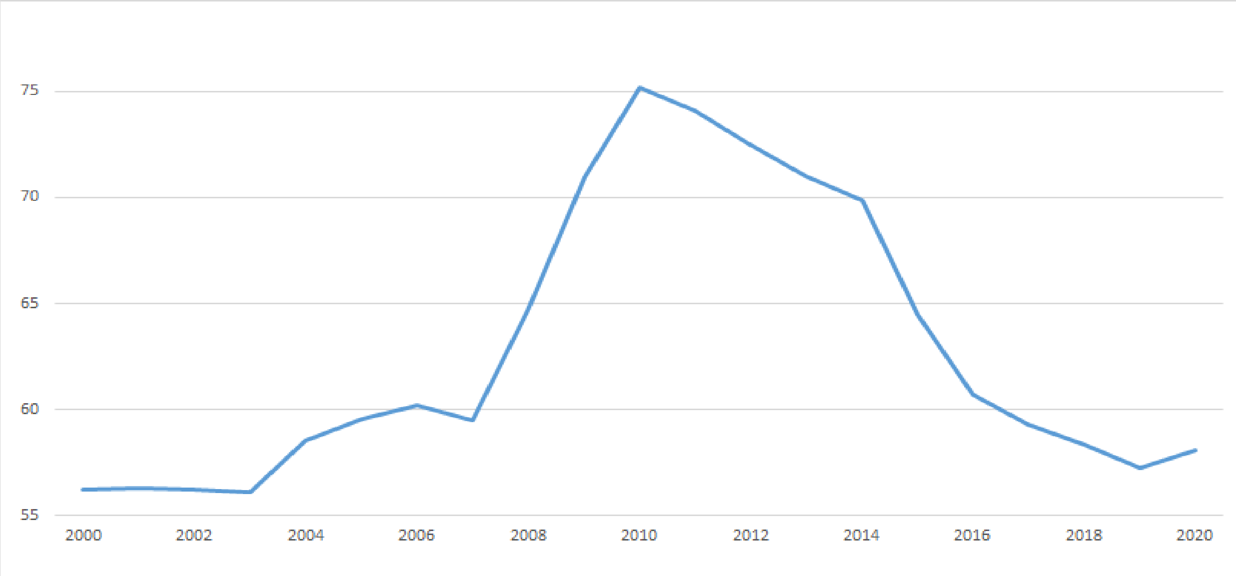


Source: Authors' own calculations based on Belstat data.

The low quality of banking assets might mirror a lack of sustainability for private debt. However, banking statistics report that their lending situation is relatively attractive, with the past five years having seen the share of non-performing loans at less than 6 % of total loans. However, the actual quality of assets on banks' balance sheets seems to be worse than reported in official banking statistics. For instance, rating reports by international agencies show that the share of loans in their third stage for large Belarusian banks, according to International Financial Reporting Standards (IFRS) 9, varies from 8 % to 18 %[3]. Moreover, under IFRS 9 many loans are sensitive to the macro-environment, especially exchange rate and output growth rate indicators, and thus can rapidly migrate into the third stage (non-performing area) should these risks materialise. Issues to do with asset quality and liquidity stance in foreign currency, mentioned earlier, are additional weaknesses in the banking industry, making it vulnerable to economic shocks.

[3] According to IFRS 9, stage 3 of loan impairment assumes a situation where the loan's credit risk increases beyond a threshold associated with a feasible level of risk, treating it beyond this threshold as 'credit-impaired.' For non-technical purposes, the share of such loans may be treated as the share of non-performing loans in a portfolio. For Belarus, given that the direct assessments of non-performing loans reported by banks are doubtful in many respects, the IFRS indicator is much more meaningful for tracing the quality of loans and the share of those loans which are actually non-performing.

Figure 3 - Well-being in Belarus vs. average in the EU-neighbouring countries



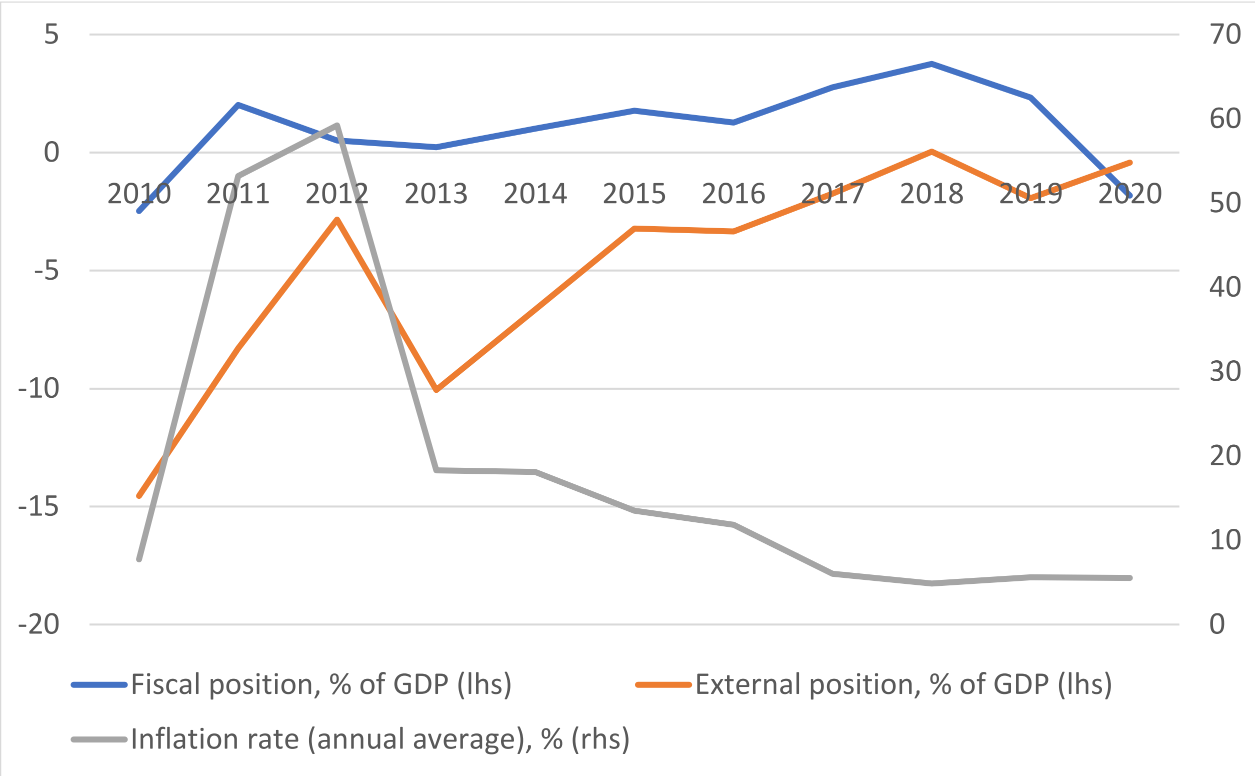
Source: Authors' own calculations based on World Bank data.
Note: The indicator is computed based on the indicator of GDP per capita according to the Purchasing power parity (PPP) concept (in constant 2017 international USD). The group of the EU neighbouring countries (used as reference group) includes Latvia, Lithuania, and Poland.

Since 2015, the authorities have given more attention to the numerous macroeconomic distortions – including a weak external and fiscal position as well as high inflation – that have been inherent in the country's economy since the fall of the Soviet Union. This led to reconsideration of macroeconomic policies' design. For instance, since 2015 the authorities have reverted from an exchange rate peg to a floating regime, empowered by clearer rules and a stronger commitment to monetary policy. This shift brought about restoration of the current account and lowering of the country's inflation rate (since 2017 it has not risen above single digits). Moreover, the authorities have introduced some budgetary rules in an attempt to secure a much stronger fiscal position. These policies have combined to secure a near-balance in macroeconomic indicators for the short-term; indeed, in 2015-2019, this policy orientation and corresponding commitments were relatively firm (see Figure 4).

Unfortunately, since 2020 the country's macroeconomic stability has been threatened by proliferating shocks and expanding contradictions. For example, Russia's tax manoeuvring and reconsideration of its oil trade terms with Belarus has created a severe challenge to fiscal stability[4]. Maintaining a near-balance in the country's fiscal position has become problematic, as it would have generated a negative fiscal impulse to the economy, while a contradiction among the goals of stabilising output, enhancing financial stability and delivering low inflation has emerged as a threat to monetary policy.

[4] Since 2019 Russia has begun a so-called tax manoeuvre, beginning a gradual (by 2024) reduction of export duties on crude oil (and petroleum products), which are being substituted by increasing taxes in the oil-extraction sector. For Belarus, this manoeuvre has resulted and will continue to result in a gradual increase of the price of imported Russian oil in comparison to market levels. For instance, in 2018, Belarus purchased Russian oil at about 73.5 % of the market level, while in 2019 it increased up to about 76.9 %, and further up to 82.5 % in 2020. Besides numerous adverse effects at the micro level (and corresponding consequences at the macro level), this manoeuvre also directly hurts Belarusian fiscal revenues, as each step in Russa's tax manoeuvre washes away around 1 % of GDP of consolidated revenues due to the squeeze Belarus faces on export duties on petroleum products.

Figure 4. Indicators of Macroeconomic Equilibrium, % of GDP



Source: Authors' own calculations based on Belstat and NBB data.

Finally, given the background of meagre growth and thoughts of financial turmoil becoming more distant, the idea of enhancing output through proactive stimulation is once again being considered as a possible solution for the government. However, changing priorities in favour of activating output growth artificially, the likelihood of which seems to be increasing, can cause more intensive fluctuations, leading to renewed dangers of inflationary pressure and recession. Prolonged output growth and economic stability can be achieved and sustained only by way of a positive *external* environment[5].

2.2 Structural weaknesses

While macro, financial and stabilisation issues must be prioritised in light of the immediate challenges facing Belarus, these are symptoms of a broader institutional malaise afflicting the country. Indeed, transition as a process is entirely about changing institutions from those which facilitate a centrally planned economy to those which facilitate a market economy (Hartwell, 2013). In this sense, institutional change is the *sine qua non* of economic transformation, with other economic outcomes (higher growth, more consumption) a second-order effect resulting from such a change.

In addition to the macro-financial issues noted above along with governance and microeconomic issues such as SOEs referred to below, Belarus has barely begun its formal structural transition, having held on to outdated and anachronistic institutions rooted in a Soviet past. This lack of progress has been seen most strikingly in the development of its economic institutions, which have directly impacted the country's business environment. Property rights top the list of neglected economic institutions, which is problematic from a transition standpoint as property rights are crucial for a sustainable growth trajectory (Acemoglu et

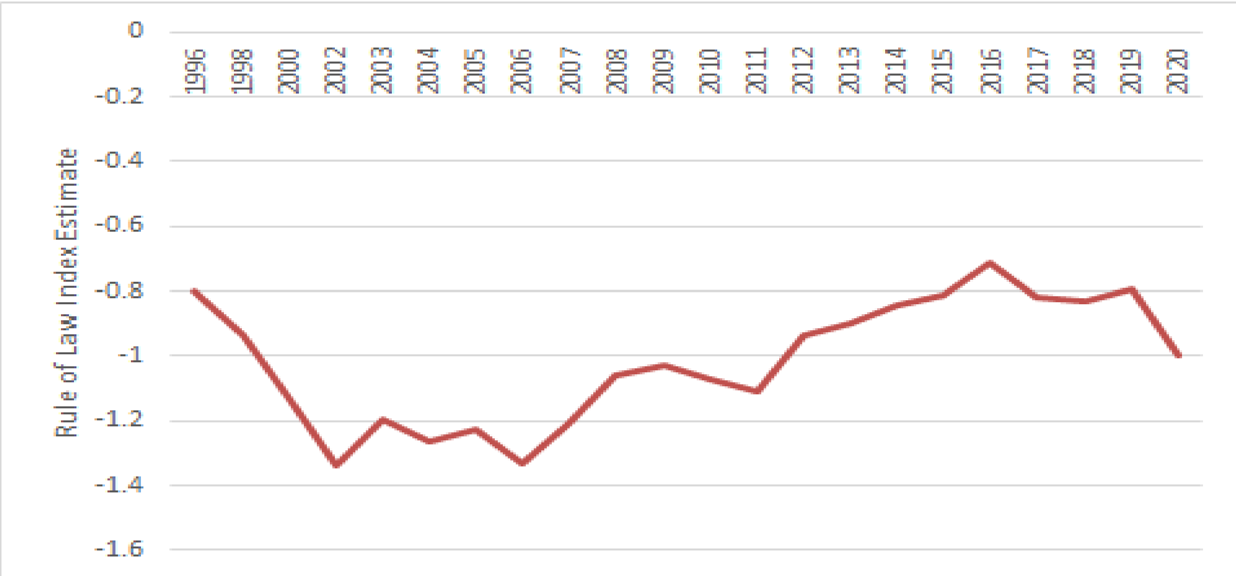
[5] Before the pandemic shock and Russia's tax manoeuvre, the prevailing estimate of the potential growth rate of output for Belarus was nearby 2.5 % per annum. Taking into account Russia's tax manoeuvre and post-COVID adjustments in the global economy, the potential growth rate of output for Belarus is likely to be nearer 1 to 1.5 % per annum. This means that any severe negative shock is likely to cause a recession and only a favourable economic environment, associated with a heightened level of foreign demand, can result in periods of a more or less sustained positive growth rate.

al., 2005; Hartwell, 2013; Ang and Patalinghug, 2021). Moreover, given the denial of even a modicum of property rights under communism, the right to own, transfer, manage and dispose of property is a key tenet of capitalism and thus a prerequisite for moving towards a market economy.

Despite the centrality of property rights to development and transition, their existence in Belarus since the Soviet Union's collapse has been highly dependent upon the whims of the President and his executive branch (Bertelsmann Stiftung, 2020). Despite the development of specific sectors outside of direct state control (such as tourism, trade and even Information Technology (IT) - see Frye (2011) for more detail), the overall legal framework for property rights has been highly restrictive and rooted in Soviet legal tradition (Flavier, 2017). This can be seen in the World Bank's World Governance Indicators (WGIs), a subjective indicator based on surveys of enterprises, experts and citizens for the quality of governance in a particular country[6]. Under the sub-indicator for the 'rule of law', encompassing quality of contract enforcement and legal institutions, there has been unanimous agreement that Belarus has made little progress since its early transition; based on a scale from -2.5 to 2.5, with higher numbers signalling better property rights, the WGI rule of law index for the country has consistently been closer to the bottom of the scale than the top (see Figure 5 below).

Much of this failure for broad-based property rights to take hold can be traced back to the path taken by Belarus in its early transition period. Unlike its Baltic neighbours, who had undertaken a 'critical mass' of reforms by 1994, at that time Belarus had rapidly abandoned any changes to its property rights policy (Savchenko, 2002). Despite formal legal protections for property having been built into the Belarusian constitution and the government's continued official stance being to allow private property, in practice there has been a bureaucratic attitude of hostility to private property rights, with these rights routinely violated in practice and legal avenues yielding no recourse (Flavier, 2017). Even minor advances in deregulation during 2016 and 2017, attempting to increase private sector participation to a limited extent, did not change the basic structure of property rights, especially given the judiciary's subservient role beneath the executive. This combination of policy negligence and bureaucratic hostility has made property rights in Belarus very much dependent on context and connection.

Figure 5. Rule of Law in Belarus



Source: World Bank World Government Indicators. WGI metrics are scored from -2.5 to 2.5, with higher numbers indicating higher quality governance.

[6] Further documentation on the WGIs and their methodology can be found at https://info.worldbank.org/governance/wgi/.

Perhaps not surprisingly given the low level of property rights, the business environment in Belarus has also been difficult for the private sector. International organisations such as the International Finance Corporation (IFC) have undertaken extensive business environment programmes in the past decade and a half, resulting in improvements to the World Bank's (now discontinued) Ease of Doing Business Rankings from a position of 129 in 2007 to an impressive 37 in 2019 (Hrechyshkina and Samakhavets, 2019); according to a World Bank Group source, sustained technical assistance in many areas throughout the country, initiated in collaboration with the EU, has resulted in improvements for businesses. However, the overall policy environment remains troubling (these programmes included digitalisation of licences and permits; as well as access to finance). Unfortunately, the dominance of SOEs in the economy – and especially obstacles to any competition to SOEs enshrined in law – has meant that the private sector remains small and privatisation has not been undertaken in any serious sense (see Section 2.3). As an official at the European Bank for Reconstruction and Development (EBRD) noted, the only progress in private sector development features areas where the authorities have not explicitly outlawed competition and the private sector has 'developed where it was allowed'. This progress was very similar to the Polish experience of the early 1990s where, instead of relying on privatisation, creation of a new and organic private sector was able to erode SOEs from below[7].

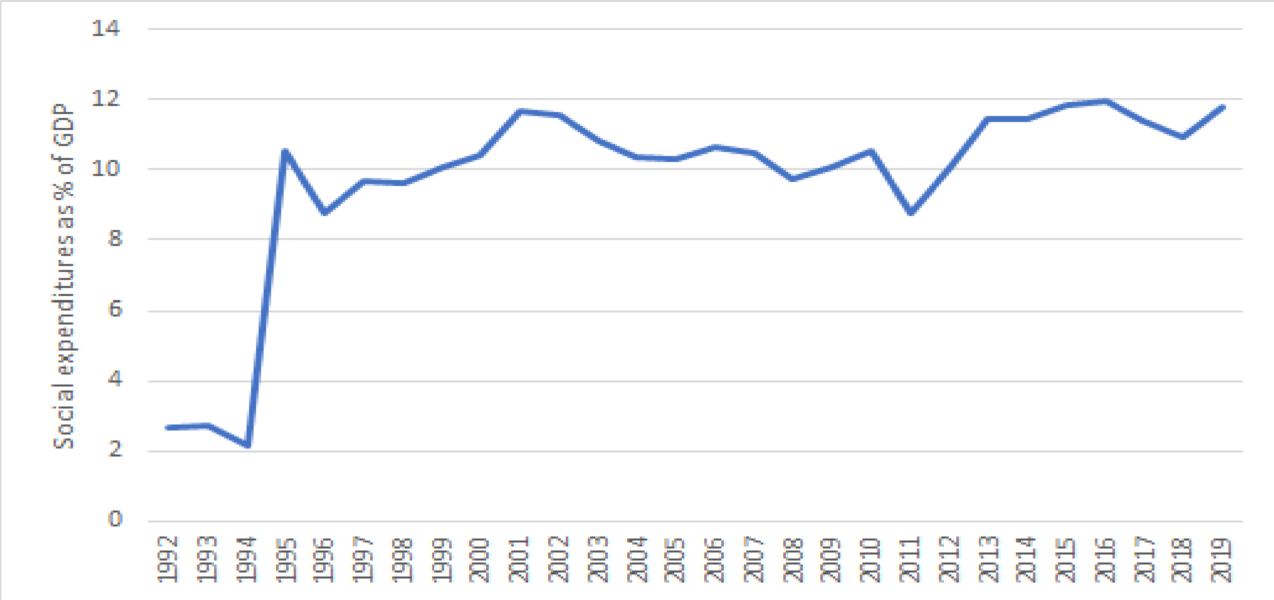
Additional examples of the 'one step forward, two steps back' approach to private sector development in Belarus include having relaxed some aspects of regulation in the 2010s, which resulted in the growth of firms at the micro and small levels (Dobrinsky et al., 2016). However, additional reforms regarding inspections and administrative burdens were overlooked, meaning that harassment of business from official sources continued unabated. This has officially been noted by businesses as a key issue for central government attention. Indeed, despite the formal changes announced in Presidential decrees from the 2010s, officials' attitude towards the private sector has not moved much from Ivanova's (2005, p. 29) assertion that 'entrepreneurs do not have the support of, and are not viewed by, the state authorities as an actual and valuable part of society.'

As a further point of structural weakness, the Belarusian government's commitment to social welfare spending as a priority has been intimately connected with its lack of political transformation. Belarus continues to score well on most human development metrics and officials from the World Bank Group counselled that any changes to social protection should seek to preserve the gains which have already been made in the areas of life expectancy, expected years of schooling and gender equality. However, there is still scope for improving the system, especially as social welfare spending has been driven by an implicit contract between the regime and society to forestall political unrest (Brel, 2017). According to IMF data shown in Figure 6 below, social spending has been consistently around 10 % of GDP, even coming closer to 12 % in recent years, with social contributions making up approximately a third of all revenue coming into the Belarusian budget (based on data from the World Bank)[8]. The emphasis of post-Soviet Belarusians leaders, though, has been on the level of benefits rather than their administration, with only 11 % of social insurance benefits going to the poorest quintile. Bornukova et al. (2020) also note that the child-heavy emphasis in social spending paradoxically does not address the key issues in some specific groups; families with children are in any event harmed by the government's tax policies. While the World Bank (2020) notes that administrative efficiency in social welfare institutions is also necessary, President Lukashenko actually rejected any substantial changes to the administration of social benefits in 2015 as an attack on Belarus' political and economic system (Wilson, 2016).

[7] Notably, Poland also did not have an extensive legal framework protecting SOEs from competition.

[8] This amount is on par with countries such as Chile and Turkey, and far below the social expenditures of advanced Western economies, such as Germany (approximately 26 % of GDP) and Denmark (28.3 %, according to the OECD).

Figure 6. Social Spending in Belarus as % of GDP



Source: IMF Government Finance Statistics.

While excessive social spending is a threat to the long-term fiscal health of the Belarusian economy, as noted above, in terms of the country's budgetary prospects and especially its macroeconomic stabilisation, social spending also negatively impacts other parts of the Belarusian economy. Talks with the World Bank Group have emphasised that the fiscal space for adding additional social insurance is highly constrained. In the first instance, reliance on the state as guarantor for all social aspects means a crowding out of the private sector, making it less able to contribute to solving some of the country's pressing issues in the health sector (particularly), but also in other metrics of human development (such as improving the country's educational infrastructure).

As in other countries of the former Soviet Union, while removing the state from huge swathes of the economy may lead to worsening inequality, it ultimately leads to a demonstrably higher quality of life across the board. This can be seen especially in the diversion of funding for healthcare spending in those countries which reached 4.3 % of GDP in 2019, having grown in real terms by 15 % from 2012 to 2019 (World Bank, 2020). Alongside this healthcare spending increase, in real terms the vast bulk of Belarusian social expenditure covers pensions, a guarantee which provides 'overly generous benefits' (World Bank, 2020, p. 35).

Finally, damage to the societal fabric of having a Soviet 'cradle to grave' approach[9] can be seen most clearly in its effect on the country's entrepreneurial spirit, in that it represents a disincentive. Indeed, when considered as a fiscal policy, the high levels of social spending represent a transfer from younger, innovative workers to older, less productive cohorts, while also reducing the ability of local communities and individuals to assist one another. As noted in an early survey of Belarusians when social spending was at its peak in the early 2000s, little material advancement since the fall of the Soviet Union meant that Belarusians continued to face 'a lack of economic security, social cohesion, social integration into the wider society' (Abbott and Wallace, 2010, p. 817).

The social welfare state championed by the current regime has merely fostered perpetuation of this situation, creating an atmosphere of satisfaction with stagnation (Sapsford and Abbott, 2006) and a reliance on the state rather than personal responsibility. As Westford (2013, p. 48) noted about the first

[9] The phrase 'cradle to grave' was coined by Winston Churchill in 1943 as the UK was contemplating creation of its welfare state; it simply refers to government-provided social security at all stages of a person's life.

decade of transition, when institutional change should have been at its greatest, 'While significantly more Belarusians in 2000 felt like they should take more personal responsibility for their lives than in 1990 […] these mean scores are still clearly more on the side of government responsibility (additionally, in each of the three waves, women had significantly higher mean scores than men).' Following on from this observation, Chulitskaya and Matonyte (2018, p. 539) noted that 'the Belarusian case is an example of pragmatic autocracy which constructs its social policy discourse using paternalistic legacies, populist promises and references to the free market, yet the arbitrary and repressive state maintains the monopoly.' Thus, the hyper-social state has also delayed the development of necessary social institutions for the facilitation of a market economy, substituting the state and its social aims for that of an independent and entrepreneurial society.

2.3 State-owned enterprises

Despite the lack of reforms, poor macroeconomic environment and structural weaknesses, the Belarusian private sector is popular with the people, as Belarusians are amongst those Europeans with the strongest preference for private ownership over the state (Haerpfer et al., 2020). Small and medium-sized enterprises (SMEs) provided 34.7 % employment in 2020, with space for growth, as the SMEs employment share in the EU is 64.9 % (Eurostat, 2021a). However, many private companies are large and hence overall private sector employment is estimated at 45.5 % (Chubrik, 2021), a figure comparable with Ukraine in 1995 and similar to Poland's private sector at the very outset of transition in 1991; the only other country still listed as a transition economy having a similar share is Serbia, which passed the 45 % threshold in 2002. Of course, the private sector share in Belarus is still very modest compared to EU countries generally, considering Sweden and Denmark have the smallest private sectors, employing respectively 71 % and 72 % of the workforce (Eurostat, 2021b), although due to methodological issues the figures might not be directly comparable.

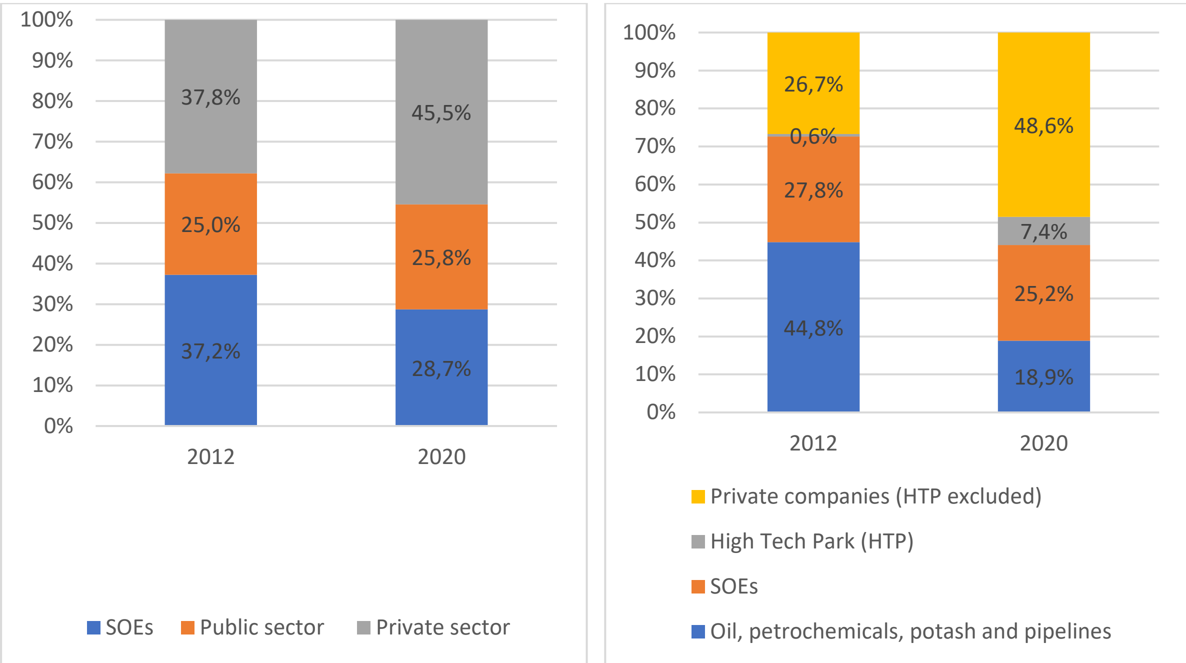
However, despite the Belarusian people's wishes, the dominance of SOEs has become a signature feature of the country's economy, being responsible both for economic growth in the 2000s as well as the subsequent inefficiency-driven stagnation seen from the 2010s. Within this SOE sector specifically, rather than the impact of market forces, ineffective support policies, such as government directed bank lending, have contributed to inefficient resource allocation and the accumulation of financial risks. The government being both the regulator and the SOEs owner has formed a major barrier in efforts to develop the Belarusian economy's competitiveness (IFC, 2020). Most of the experts interviewed by the authors in preparing this study singled out this large and inefficient SOEs sector, which is seen as posing a major challenge for future reforms and something that will take a substantial amount of political will to address. As an official from the EBRD told us, the 'SOE sector has no potential to generate growth' in Belarus post-transformation.

The significance of SOEs in the Belarusian economy is a direct consequence of the failure to carry out meaningful structural reforms, particularly with regard to privatisation. While limited attempts were made in the 1990's, thereafter the process was limited to several small deals per year, sometimes countered by examples of major re-nationalisation (Dobrinsky et al., 2016). However, compared to the Soviet economy, modern Belarusian SOEs did undergo significant changes, in that they now have considerably more independence with economic decisions as well as operating largely in free and competitive markets.

Measuring the state-owned sector's contribution to the economy is a challenge due to the existence of different (and often mixed) forms of ownership. According to Belstat (2021a), companies with any share of state ownership contributed 46.8 % to value added in 2019 (and only 41.5 % to value added in services). This approach does not allow for distinguishing between commercial SOEs and public entities providing public services such as education, healthcare, or governance.

There were 3 169 Belarusian commercial SOEs in 2020, excluding micro-enterprises. According to Chubrik (2021), the role of these commercial SOEs has been steadily declining over recent years. As can be seen from Figure 7(a) below, their share in terms of employment contracted from 37.2 % in 2012 to 28.7 % in 2020. This contraction resulted from budget constraints for many SOEs being tightened still further. However, the developing and vibrant private sector has been able to absorb some of the released workers. The role of SOEs in exports (oil, petrochemicals and potash fertilisers) has also been diminishing over time (see Figure 7(b)), with trade being redirected through private companies. This contraction cannot be totally explained by privatisation or liquidation of the major SOEs, the latest large privatisation deal having been agreed in 2011 when Belarus sold its share in the gas pipeline to Gazprom.

Figure 7. The role of SOEs in employment and exports, 2012-2020



(a) Distribution of employment by form of ownership

(b) Distribution of export by type/source/form of ownership

Source: Chubrik (2021)

SOEs are dominant in manufacturing, with 69.3 % of total manufacturing output produced by SOEs. Belarus' major export goods, petrochemicals and potash fertilisers, are also produced by state-owned companies and state-ownership additionally dominates other parts of the economy: machinery; the automotive sector; metallurgy; and to a lesser extent the food industry. The automotive sector and food industry SOEs focus on exports to Russian and other post-Soviet markets, whereas other exports are directed elsewhere: petrochemicals to the EU, the UK and Ukraine; and potash to China, Brazil and India. As there is no private land ownership in Belarus, most farms are state-owned (many still in collective farm form) and SOEs also dominate in agriculture (see below). In services, the situation is more nuanced, with the state still playing a prominent role in infrastructure-related undertakings and construction, whilst the private sector dominates in other services from IT to retail.

The underperformance of SOEs is well-documented in many countries (Shirley and Walsh, 2001), and Belarus is no exception. SOEs are responsible for 61.9 % of overdue loans, a share which is disproportionately large across SOEs of any size, while Favaro et al. (2012) demonstrate that the SOEs in manufacturing are less efficient than any private sector firm (Osipov et al. (2020) offer similar evidence from the food processing industry). The sources and reasons for inefficiencies are varied. Preferential treatment from regulators and access to directed lending have led to inefficient resource allocation and capital hoarding, encouraging high debt levels. At the same time, large shares of foreign currency-denominated loans in SOEs' portfolios have created additional financial risks, while many are expected to perform social functions, providing social services and on occasions excessive employment opportunities. All these factors have contributed to the deteriorating financial performance of SOEs: between 2012 and 2020, net profits generated by the SOE sector fell from 8.3 % to almost 0 % of GDP.

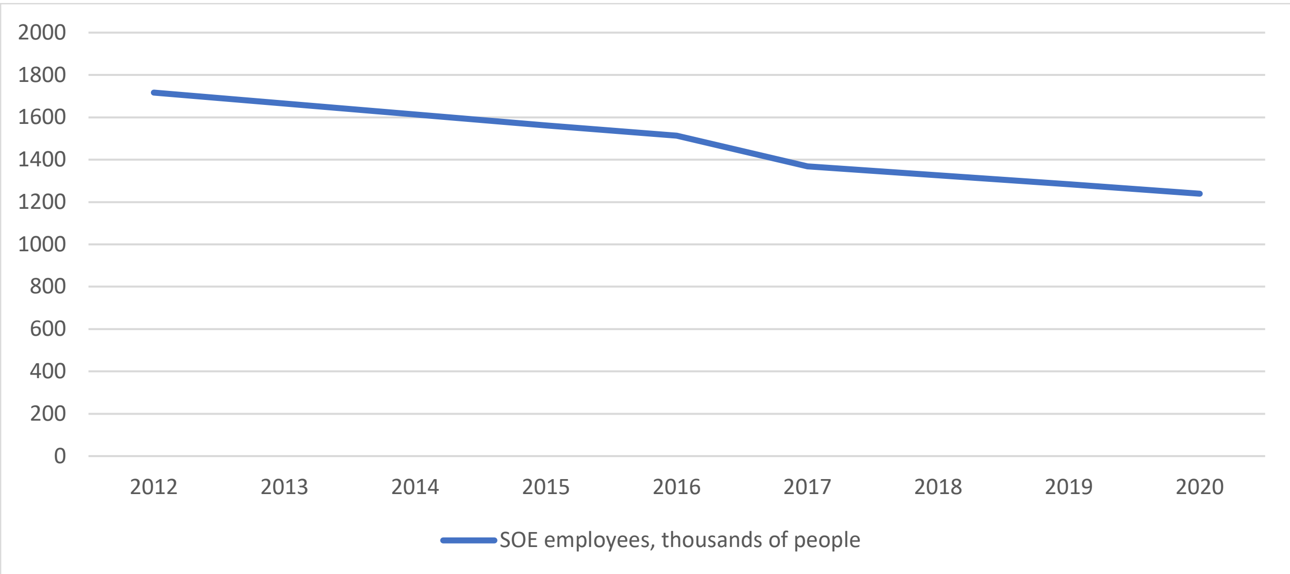
SOE inefficiency is largely due to improper corporate governance and management incentive structures. Daneyko et al. (2020) identify the following corporate governance failures:

- Key performance indicators for SOEs typically include output volume, exports volume and employment indicators, but *not* profitability. The focus on quantity instead of quality leads to lower enterprises' efficiency and competitiveness.
- Short planning horizons and the need to demonstrate positive results within 1-2 years limits the horizon for strategic planning and often causes top management to ignore long-term trends and lose market positions.
- Low degrees of risk tolerance (including risks of CEO imprisonment in the event of failure) lead to low innovation and selection of 'safer' options for investment strategies.

Due to state ownership and control, there is very limited potential for improving governance without changing the ownership structure (the government as an owner would always have incentives to intervene in independent decision-making by SOE corporate boards).

While SOEs in other Central and Eastern European (CEE) countries pay significant wage premiums compared to private sector companies (Richmond et al., 2019), wages in Belarusian SOEs have been consistently below the country's average wage (6 % lower in 2020), mostly due to the concentration of private companies in human capital-intensive sectors such as IT and finance. SOEs, by contrast, have been the 'employer of last resort' in Belarus. In the absence of any meaningful unemployment support, SOEs have been the main source of social protection, offering workplaces for everyone.

Figure 8. SOEs employment in thousands, 2012-2020



Source: Belarusian Statistical Committee, Main Indicators of the State Sector Enterprises, 2012-2020 bulletins

However, SOEs have been increasingly unable to continue this role following the imposition of budget constraints and stronger financial discipline over the last ten years or so, and Figure 8 illustrates that SOE employment in steady decline. In 2020, SOEs employed 478 000 people less than they did in 2012, an overall workforce reduction of almost 10 %. However, despite this there were no unemployment flare-ups:

the private sector generated over 100 000 new jobs and natural ageing took care of the rest. While the Eurasian Development Bank has estimated the excess workforce to be at 20 % of all SOE employment (EADB, 2016), independent experts believe that recently introduced tighter budget constraints for SOEs have helped to minimise this excess (Shymanovich and Boltochko, 2020). Nevertheless, as evidenced by the recession of 2015-2016, SOEs are not able to perform their social functions properly and hence new social protection mechanisms are now needed (Umapathi, 2020; Bornukova et al., 2019).

There is a wide consensus that Belarusian SOEs must undertake extensive reforms: reform proposals voiced by the IMF (2018), the World Bank (2018), and other major international organisations have often coincided with Belarusian government plans (which were never implemented). Independent researchers and reform practitioners from Central and Eastern Europe also embrace those plans, as indicated by recent task force recommendations from Chatham House (2021). Any approach to restructuring and further privatisation of SOEs should include the following preparatory steps:

- Audit all SOEs for financial viability and sort them into the following groups: (i) viable and financially stable SOEs ready for privatisation; (ii) SOEs in need of financial restructuring; and (iii) insolvent SOEs which will need to go through bankruptcy or liquidation.

- Design individually tailored measures to restructure the largest and most significant SOEs (by tax contribution, exports, or role in local employment), which would most likely be around 100 companies currently on the list of strategically important enterprises.

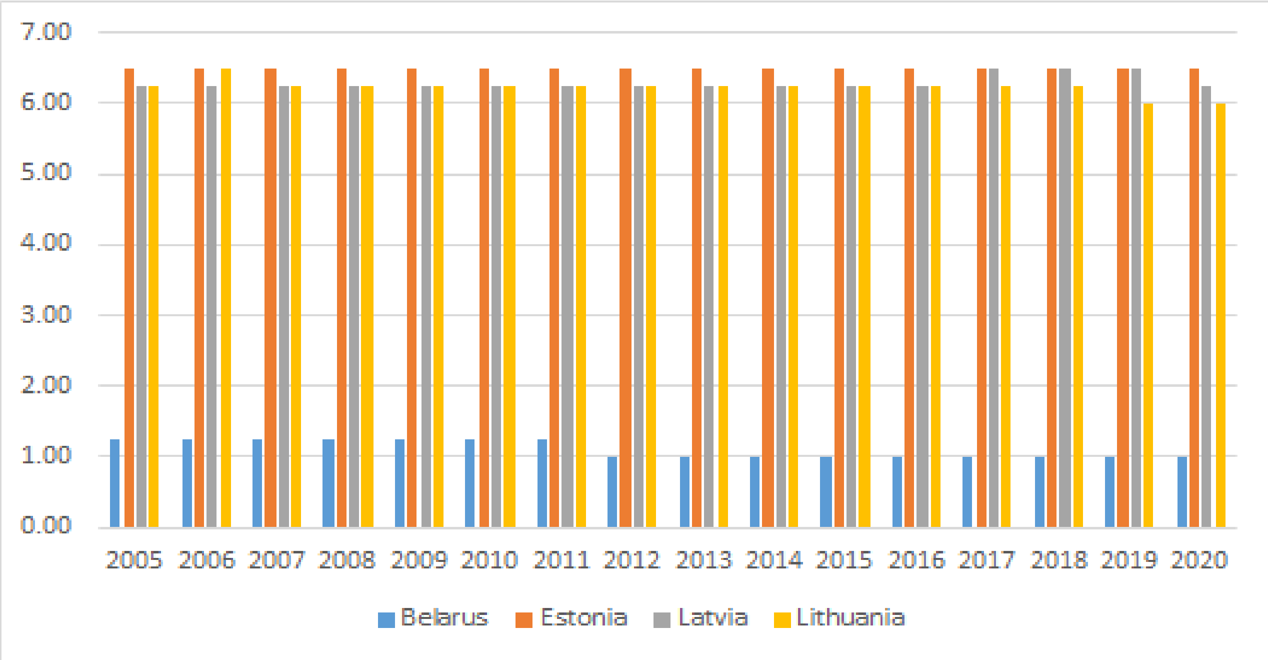
Privatisation in Belarus will be able to avoid the mistakes and pain of 1990s' privatisations in CEE countries as it will be undertaken in completely different circumstances. Small and medium-sized SOEs in large cities could either be privatised or liquidated/bankrupted with minimal anti-monopoly oversight and without social consequences. Belarus already has a large enough private sector that could compete for and effectively utilise any labour force and asset excesses. As for large, strategic enterprises, there are good reasons to employ technical assistance in the first instance to assess their potential. If appropriate, both financial and management restructuring can then follow. Once corporate governance mechanisms are in place, any excessive social obligations can be passed on to the state and financial obligations restructured, as appropriate. Hence, these companies will become much more attractive for private investors.

Restructuring large SOEs could well bring about employment contractions, especially in small towns and rural areas. Accordingly, properly targeted social protection mechanisms should be developed, including unemployment benefits. State employment services should also incorporate active labour market policies to help former SOE employees transfer to more productive workplaces. As noted by independent Belarusian experts and the World Bank country office representatives during interviews for this report, reform of vocational education and training systems would also be necessary to facilitate the smooth transition from an SOE-dominated economy to one which is mostly private.

2.4 Other governance issues

The need for macroeconomic stabilisation, structural reform and removing the state's overly significant role from the enterprise sector, stand out as key priorities for reform in Belarus. However, additional issues must also be resolved if Belarus is to complete its successful transition into a functioning market economy. Already hinted at above is the need for development of an effective and independent judicial sector not only to balance the executive and legislative branches but also enforce contracts. Put politely, Belarus 'still experiences wide-ranging challenges in the field of judicial independence' (Laputko, 2021, p. 249).

Figure 9. Judicial Independence in Belarus and the Baltic States



Source: Freedom House Nations in Transit Database. Judicial Independence is measured on a scale from 1 to 7, with 7 being the most independence and 1 being the least.

Unlike its Baltic neighbours, who underwent a comprehensive judicial reform process (Figure 9), or even Poland, which is continuing to grapple with judicial institutions post-communism (Hartwell and Urban, 2021), there was little if any reform in Belarus for the first decade and a half of its independence. While the form of legal institutions was changed in the constitution and judicial independence explicitly accepted in Article 60 (Treskov et al., 2020), in practice very little changed from Soviet times, with courts as appendages of the state (Vashkevich, 2020). As an example, six justices (a majority) of the Constitutional Court, the highest court in Belarus charged with reviewing the legality of various laws and legislation, are all hand-picked by the President (with no need for consultation with any other branch of government), meaning that proposed constitutional reforms by the executive have almost automatic backing from the court.

This state of affairs has persisted throughout the post-communist era. Reforms have been attempted, such as the series of judicial reforms of 2014, which were predicated on additional centralisation in the judicial selection process (Vashkevich, 2020). However, these reforms have taken place 'without any inputs on the part of society or democratic institutions' (Fedotov, 2014, p. 46), and the reliance on centralisation shown in the 2014 package pointedly bypassed civil society in favour of a more state-centred solution. The events of 2020, demonstrating the subservience of the legal system (including the police) to political forces, above all the President, have further illuminated the need for reform of the entire system (Nuñez, 2021), as the EU has been stressing for years (Bosse and Vieira, 2018).

In addition to issues involving the courts, Belarus also faces an environmental legacy similar to that of other post-Soviet countries (Hartwell, 2021), with the added concern that Belarus was the country most affected by the Chernobyl nuclear disaster (some 25 % of Belarusian forests were contaminated by the fallout, see Weissenberger (1994)). The Soviet legacy can be found in more than just the trees, though, as a continuing government emphasis on inefficient state-owned industries means a high energy intensity of production (Shimova, 2019; Hartwell, 2021), while ineffective agricultural production (see below) has resulted in an accumulation of waste related to potash production (Shimova, 2019). Similarly, emphasis on obtaining energy to feed inefficient production processes has brought about a tendency to side-line environmental projects in favour of political concerns (Novikau, 2019). At an urban level, infrastructure concerns related to waste and wastewater processing have also placed a strain on the environment, although the EU has attempted to provide assistance in this area by way of: substantial investments from the Commission into the EBRD-managed 'Eastern Europe Energy Efficiency and Environment Partnership'; the multi-donor funded Northern Dimension Environmental Partnership; and the European Investment Bank (EIB) for Minsk (Gløersen et al., 2019).

Practical difficulties resulting from the Soviet legacy have been compounded by the many Soviet-type policies that remain in place concerning administration of the environment. As with Russia, the Belarusian government has a Ministry that places 'natural resources' ahead of matters to do with environmental protection, which in turn are placed squarely within the government domain; as Shkaruba and Skryhan (2019, p. 152) note with regard to the Chornobyl fallout, the 'Belarusian government channelled public funds to a limited number of selected research organisations affiliated with governmental bodies in charge of Chernobyl affairs, removed non-state actors from Chernobyl research, and monopolised data collection, thus eliminating concurrent knowledge production.' At the same time, the government has been 'relatively tolerant' of international organisations with an environmental focus operating in Belarus, mainly due to the fact that EU-funded projects have focused on discrete issues rather than overhauling environmental policy-making on a broad scale (Mazepus et al., 2021). For other initiatives, such as the for-profit private sector, environmental action is constrained by undue regulation and paperwork required by the Ministry, limiting the ability of interested stakeholders to act (Dawson et al., 2021).

One issue related to environmental protection, but with many more immediate ramifications for the country's economy, is the agricultural sector. This forms a relatively small part of Belarus' economy, making up only 6.83 % of GDP in 2020, along with 7.2 % of total employment (including, according to Belstat, only 267 000 people are employed in agriculture from more than 2 million in the rural population) and 6.8 % of gross value added. Part of the reason for this poor performance is likely to stem from an agricultural policy whereby the Belarusian government follows a policy of 'authoritarian modernisation', based on maintaining state ownership of land and major production assets as well as introduction of quasi-market incentives. All agricultural land in Belarus is technically under state ownership (hence unchanged for decades). Accordingly, state-owned farms occupy rent-free land with the state also covering any expenditure connected with maintaining the quality of land, such as melioration and liming (see Akhramovich et al., 2015; World Bank, 2009).

This approach has meant that the agricultural sector is dominated by 1 428 large commercial farms, primarily state-owned, that produce over 81.1 % of total output; this dominance means that the 'average' farm utilises 5 900 hectares of agricultural area and employs 230 people[10]. The majority of state-owned farms are characterised by low operational efficiency, as yields in both crop and livestock production can be as much as 2-3 times lower than the EU average. Low capital and energy intensity as well as excessive employment are also typical (von Cramon, 2010; World Bank, 2009). Additionally, the agricultural sector holds an important place for other large state-owned companies, which depend heavily on their sales to the agricultural sector, particularly producers of tractors, trucks, agricultural machinery and fertilisers.

Agriculture in Belarus is also heavily subsidised: according to official statistical data, subsidies amounted to EUR 706 million in 2020, equivalent to 4.7 % of consolidated public expenditures. However, even at this level the outlay may be underestimated, with independent research arguing that there are at least 30 different channels through which state support is rendered to the agricultural sector (Akhramovich et al., 2015). These direct subsidies are supplemented by direct lending, amounting to at least 10 % of farm output[11]. The exact amount of preferential lending is hard to estimate, though, because very often such lending is used in quasi-lending schemes via upstream and downstream companies. In any event, the contribution of directed loans to total-factor productivity and consequently to GDP growth in Belarus is

[10] As of 1 January 2021.

[11] As regulated by article 9.1 of the Edict of the President No 347 from 2014.

minimal (Kruk, Haiduk, 2013). Perhaps more depressingly, national statistics show that without state support about half of all agricultural enterprises would be loss-making.

Not surprisingly, this state-centred approach means that the environment for private farms is thus very difficult, with private farmers making up a negligible share of agriculture equivalent to about 2.6 % of arable land and production. At the same time, while subsistence farming makes up less than 20 % of total production, quite a large share of population depends on this agricultural activity (approximately 16.3 % of households). As a result, there is little dependence on imported foodstuffs, which comprised 13 % of total imports in 2020 (a slight drop from 14.7 % in 2015).

However, Belarus has seen a sharp increase in agri-food production, especially for the export market, from EUR 1.24 billion in 2005 to a remarkable EUR 5.12 billion in 2020, with exports concentrated towards the Russian Federation (comprising a stable 75 %-80 % of all Belarusian agricultural exports). Indeed, agricultural and food products made up one third of Belarus' total exports to Russia (and 19.8 % of Belarusian exports overall) in 2020, a result driven by external factors: in the aftermath of Russian counter-sanctions put in force during 2015, Belarus drastically increased its agri-food exports to Russia while simultaneously increasing imports from the rest of the world. This became known as the 'Belarusian shrimp' practice of massive re-export (legal, quasi-legal and illegal) of EU-originated foodstuffs to Russia. As a result, its trade balance with Russia amounted to a positive EUR 2.65 billion a year, while the country has had a negative balance with the rest of the world of approximately EUR 1.77 billion a year.

Much of the 'non-re-export-related' success in agricultural exports has been due to the food processing industry, which exports about 46 % of its production, mainly to Russia and the Commonwealth of Independent States. In addition, approximately 80 % of farm production in 2020 (a total of EUR 8.13 billion) was sold to the processing industry, according to Belstat data. Food processing sales reached a high of EUR 11 billion that same year. Belarus has also traditionally specialised in livestock production, becoming a major exporter of meat (totalling EUR 692 million in 2019, with EUR 527 million going to Russia) and dairy products (EUR 2.1 billion in 2019, with EUR 1.84 billion heading to Russia). This reliance on livestock has meant that the 'typical' Belarusian farm grows crops to produce fodder for internal use (generally of low quality) instead of producing staple goods for export.

Finally in terms of additional governance issues, crisis circumstances surrounding the Presidential elections of August 2020 have demonstrated the precarious position of civil society in Belarus. As Nuñez (2021) noted, the extreme centralisation of power in Belarus' executive has prevented any alternative or informal structures from developing, with civil society limited to a vibrant think tank community (now being liquidated) and only pro-Russian organisations proliferating to any extent (Mazepus et al., 2021). Despite the states' stance against independent organisations coupled with the use of direct control and sanctions, 'civil society organisations [CSOs] have managed not only to survive but also to develop new strategies to cope with state control and repression' (Sahm., 2009). The EU has played some part in this by providing concerted assistance through the Eastern Partnership vehicle and in pressing the government to give CSOs a seat at the table with regard to relevant policy areas (Youngs, 2020).

2.5 External issues and dependence on Russia

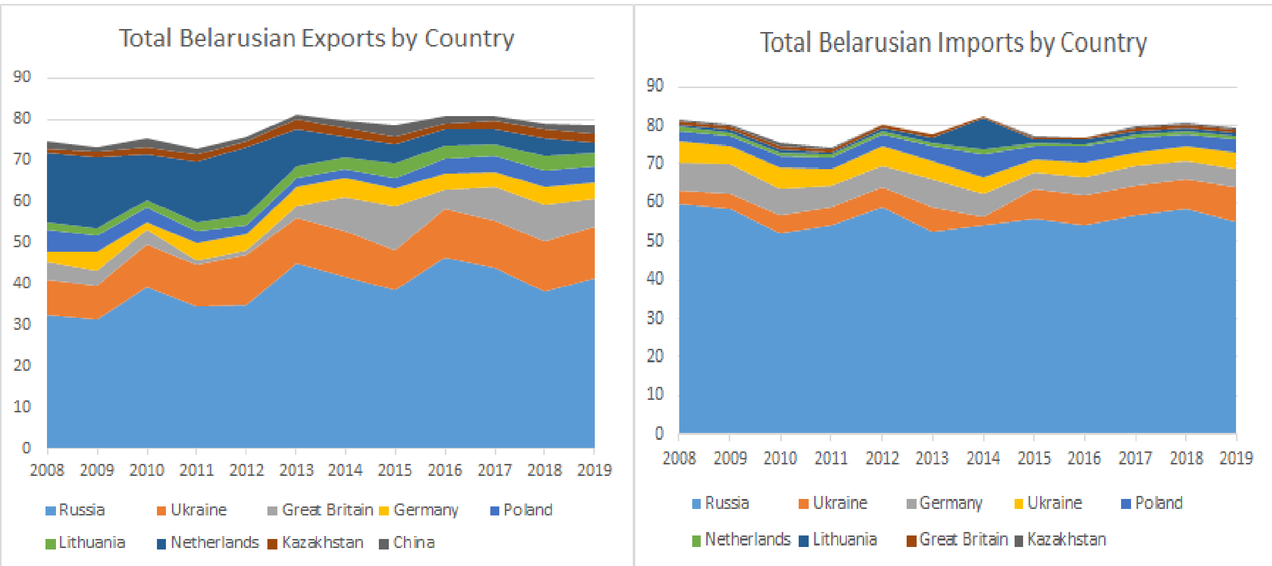
2.5.1 Trade

Belarus exported goods worth EUR 29.25 billion and imported goods worth EUR 35 billion in 2019, according to the United Nations COMTRADE database (2021). For the past 20 years, Belarus has had a negative trade balance, importing more than it exported, making its economy extremely dependent on imports. In particular, Belarus relies heavily on fuels (energy), chemicals, machinery and metals, which accounted for more than 50 % of import volumes in 2019.

As a former republic of the Soviet Union, albeit one which has only slowly moved beyond its Soviet economic legacy (as noted above), Belarus has historically maintained close economic links with Russia, as reflected in its trade patterns and its membership in the EAEU. Figure 10 shows the shares of major export and import partners for Belarus, with Russia being by far the most important trading partner: the share of Belarusian exports to Russia has actually increased from 32 % to over 40 %, while the share of Russian imports never fell below 50 % between 2008 and 2019. In contrast, exports to and imports from the EU27 have declined during this time from 39 % to 18 % and from 21 % to 18 %, respectively.

As noted earlier, it is in the fuels (energy) category where Belarus relies the most heavily on Russian imports, with about 98 % of these imports originating from Russia in 2019. Part of this is due to proximity and part due to Russia's position as a global supplier. However, an additional factor is that Russia provides these imports below market prices and hence subsidises the Belarusian economy with about EUR 1.8 billion (Åslund, 2021). Furthermore, in terms of metal product, chemicals, machinery and electrical equipment, Russia is a dominant partner with import shares of 65.9 %, 39.9 % and 36.1 % of total imports in the respective categories for 2019 (United Nations COMTRADE, 2021). In the same year, Belarus imported over EUR 4 billion of food products, which corresponds to 11.7 % of total Belarusian imports. Of these food imports, 30 % were sourced from Russia. In terms of final consumption, Russian food imports account for at least 11 % of total Belarusian domestic food consumption[12].

Figure 10 - Trade Destinations and Sources for Belarus, 2008-2019



Source: United Nations COMTRADE (2021) database, authors' own calculations.

Russia is also an important export market for transportation equipment (65 %), chemicals (17 %) and animal products (85 %). Only in the fuels (energy) category do Western European countries have a major share of over 50 %. Yet, most inputs (specifically fuels and energy) for these sectors are provided by Russia, which creates significant leverage towards Belarus and also Western European countries (Belstat, 2021b). Specifically, the petrochemical industry is one of the most important sources of employment and tax revenues within Belarus; accordingly, any potential Russian sanction concerning intermediate inputs for this sector would have a significant impact on the Belarusian economy and its exports. We see similar patterns in the metals and machinery industry as well as electrical equipment. Thus, most export

[12] Total Belarusian domestic food consumption was approximately EUR 19.6 billion in 2019, but this number includes related services and processing within Belarus and thus the importance of Russian imports for food security in Belarus is likely to be much higher than 11 %.

competitiveness is driven by artificially low energy prices provided by Russian subsidies, which could easily deteriorate.

To summarise, the country's economy relies heavily on inputs provided by the Russian Federation, which at the same time is an important destination market for Belarusian exports. Any economic sanction that would limit the supply of inputs would have an extremely detrimental impact on the Belarusian economy, especially in terms of fuels (energy) and food products. Even sectors that are better integrated with Western economies still rely on Russian imports. This continuing lack of diversification in terms of imports and exports constitutes a major threat to the Belarusian economy.

Belarus is currently not a member of the World Trade Organization (WTO), which gives more freedom in setting its own tariffs, but at the same time gives the same opportunities to other countries. As a member of the EAEU, Belarus has duty free access to its main export markets, specifically Russia. While the EU does not actively discriminate against Belarusian exports for certain goods, nevertheless, considerable tariffs do exist. For example, for chemicals Belarus faces a tariff of up to 6.5 % and a (trade) weighted average tariff of 4.9 % (UNCTAD TRAINS, 2021).

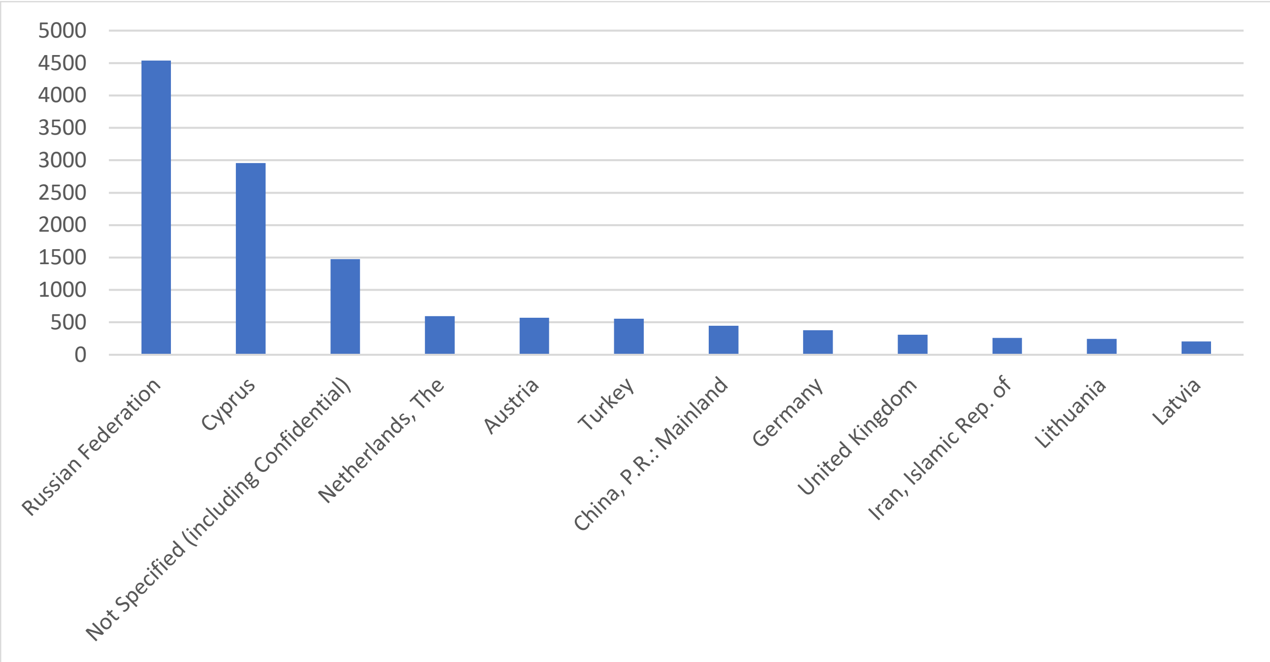
2.5.2 Foreign Direct Investment

Since mid-1991, Belarus has opened itself up to Foreign Direct Investment (FDI). From 1994 to 2019 the country observed an average net FDI inflow of 2.1 % of GDP every year (World Bank, 2021). According to the IMF Coordinated Investment Survey (2020), the total FDI stock in Belarus was EUR 12.8 billion in 2019, about 24 % of Belarus' GDP. Over one third of total FDI stock comes from Russia (see Figure 11)[13]. Work done by the European Commission Directorate-General (DG) for Trade (2020) shows that the EU had an Outward Direct Investment position of EUR 3.2 billion in Belarus, which has changed little over the past 5 years; most European FDI originates from Austria, Germany and the three Baltic states.

While high shares of Russian FDI in Belarus would imply that Russian sanctions would inflict losses for Russian firms operating in Belarus, Russian FDI stocks in Belarus are between only 1 % to 2 % of Russian FDI stocks overall and thus may have limited weight in the Russian policy-making process. Conversely, Belarusian FDI stock is also heavily concentrated in Russia, that is EUR 1 billion out of EUR 1.2 billion in 2019 (IMF, 2020).

[13] Estimates indicate that about 35 % of Cyprus FDI outflows are 'round tripping' from Russia, which would imply that the Russian originated FDI stock might be even higher, see Repousis et al. (2019).

Figure 11 - Belarusian FDI inflows in millions of USD, by country, 2019



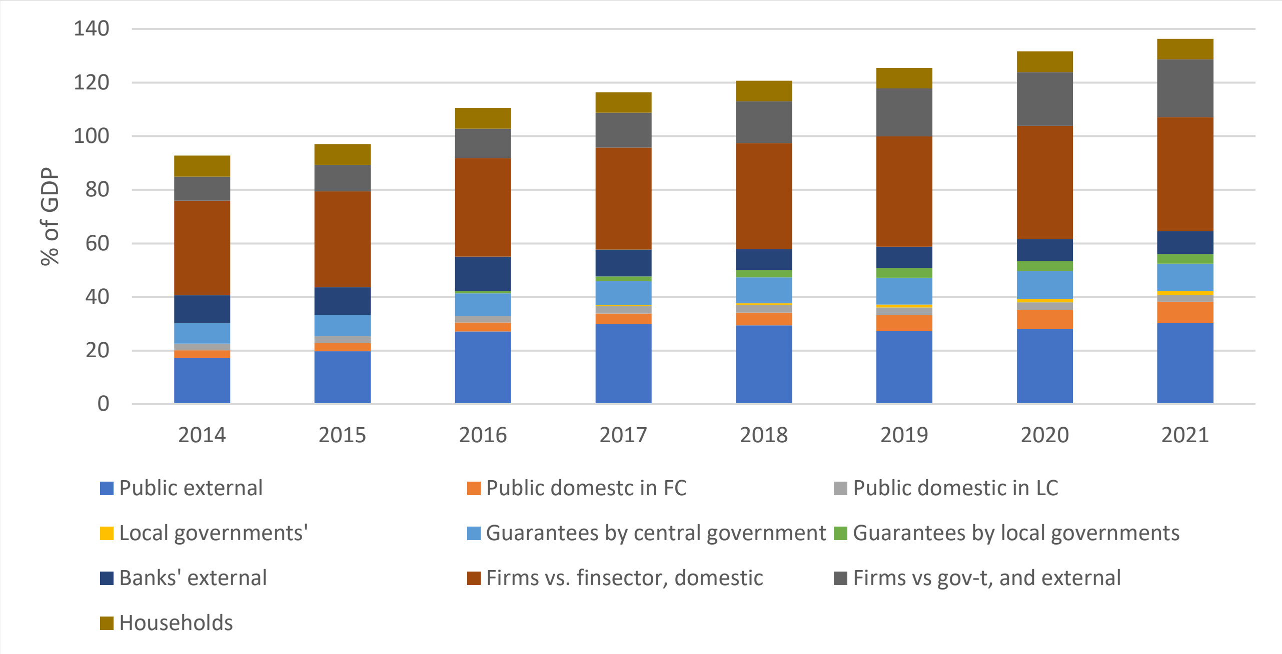
Source: IMF (2020) coordinated investment survey.

2.5.3 Debt

According to the National Bank of the Republic of Belarus (2021b), its gross external debt stood at 70 % of GDP at the end of 2020, whilst central government debt was around 30 %. More than one third of central government loans are provided by Russia. In the first two quarters of 2021, both debt ratios declined. In general, the IMF (2017) indicates that the Belarusian debt ratios are fairly common for countries with comparable development levels. Furthermore, external debt servicing to GDP (GNI) ratio is around 11 % (7.4 %) and thus not extraordinarily high. However, the close interconnection between private and public debt (see Figure 12) is missing from these headline numbers, meaning that a shock to one of them is highly likely to spill over into other categories. For example, the debt sustainability analysis in Vinokurov et al. (2021) reveals that potential bailouts (mainly of SOEs) by the government is far beyond the its fiscal capabilities. Hence, massive infusions of debt will be required, thereby making any concerted bailout the largest risk to public debt sustainability. Moreover, both private and public debt sustainability is sensitive to exchange rate risk and the growth rate of output, indicating that unfavourable external conditions or internal stagnation could raise the real burden of debt.

While recently some loans to Belarus partly denoted in Russian roubles were highlighted in the media (Korsunskaya, 2020), in 2016 70 % of deposits and about 60 % of loans in Belarus were denoted in USD (IMF, 2017). These shares have been declining in recent years, but are still very high compared to other CEE countries. The strong dollarisation of external debts limits Belarusian monetary policy space, especially in regard to international trade. Moreover, any sanction impacting the export potential of Belarus will have an impact on the inflow of foreign currencies to repay current USD-denoted loans.

Figure 12 - Public and Private Debt, % of GDP



Source: Authors' own calculations based on Belstat and NBB data.

2.5.4 Migration

Before the migrant crisis in November 2020, official Belarusian statistics showed a net inflow of migrants to Belarus, but the reality is likely to look much different. Anecdotal evidence indicates a substantial 'brain drain' from Belarus since August 2020, as noted in Reuters (2020) or Stern and Dixon (2021). Even before the presidential elections, though, Belarus was already facing a problem in retaining its best and brightest citizens: by 2019, nearly 1.5 million Belarusians lived abroad, almost half of them in Russia (United Nations, 2021). Alternatively, Poland, Latvia, Italy, Lithuania and Germany are the most common destinations for Belarusian emigrants into the EU, with more than 200 000 Belarusian nationals living in these five countries during 2019. Since 1995, personal remittances received by Belarus hit their height at 2.4 % of GDP (in 2018) and have recently declined to 1.6 % of GDP in 2020. While this share is rather low compared to similar developing countries (especially in the post-Soviet space), it is still a significant contributor to Belarusian GDP.

3 Facing a transformation: three scenarios

Given the baseline of weaknesses and opportunities within Belarus' economy, this section examines the possible challenges facing Belarus in transitioning to a democratic free market society. As noted in Section 2.5, one of the biggest issues relating to successful transformation will be Belarus' extreme dependence on Russia. In this sense, having delayed transition for 30 years, Belarus is in a far worse position than other countries in its neighbourhood were in 1989/1991 (especially the Baltics, Poland and the then Czechoslovakia). After all, it was the Soviet Union's eschewing of force in Poland and (eventually) the Baltic states which made it possible for the transition to continue successfully. Moreover, Poland's decade of slowly pulling away economically from the Soviet Union (albeit by economically dubious means, such as the accrual of foreign debt to finance consumption goods) meant that, when transition was embarked upon, Russia's influence was much reduced. At the same time, Czechoslovakia was engaged in a similar course of action. Coupled with the collapse of the Russian economy in the 1990s and its own slow recovery, there was a fortuitous window for Central European countries to pursue their transition in peace.

However, the present day sees a greatly changed Russian Federation and especially a different regime in Moscow. Under the leadership of Vladimir Putin, Russia has demonstrated repeatedly its willingness to intervene militarily (as in Georgia and Ukraine) when it perceives threats to its national interests or simply as a way to exert pressure. In other post-Soviet countries, Russia has also been quick to deploy other measures of influence, including trade embargoes and sanctions, in an attempt to influence the internal affairs of its neighbours. This reality of an active and interventionist Russia means that its attitude to any substantial internal changes in Belarus will be crucial in its transformation. Accordingly, Belarusian transformation is more likely to resemble recent transitions in Ukraine and Moldova – where Russia has been playing an active and negative role – rather than the relatively easier external conditions faced, for instance, by Poland and the Baltic States in the early 1990s. The specific actions already undertaken by Russia against Ukraine and Moldova in the past have informed the assumptions of this section.

In particular, this section examines three scenarios regarding the possible attitude of Russia towards a democratic and free market transformation in Belarus. The scenarios are realistic, in that there is no option where we anticipate Russia to be a willing and constructive participant in such an endeavour. Rather, we build around scenarios in which Russia is: (1) negative but not obstructionist; (2) openly critical and working behind the scenes; and (3) openly hostile. Each scenario below has a series of assumptions of precisely what the Russian response will look like in terms of policies and actions. These assumptions will colour how Belarus will be impacted and thus how the EU can/should respond (and how much any interventions will cost, as shown in the following section).

We examine these three scenarios using an economic model based on the IMF's financial programming approach (Barth et al., 2000; Mekkelson, 1998). The assumptions for each scenario are quantified and represented by the values of a set of economics variables, the bulk of which characterise the economic relationship with Russia (e.g., the prices of crude oil and gas, the volumes of crude oil supply, dummy variables responsible for the access to the Russian market and the level of borrowings from Russia). These variables are treated as input (exogenous) components and uploaded into our model for simulating scenario outcomes.

This model is structured in terms of supply and demand of goods and services, as well as money and foreign exchange. Typically for a model of this class, it combines a large set of macroeconomic variables by exploiting accounting identities among the blocks/sectors of the economy (production, government, monetary and external). At our model's core is the production block, represented by a set of variables systemised in line with the System of National Accounts principles. In this block, values for the most important real variables from the economy's demand side (household consumption, investment, exports and imports) are derived as the solution of the system of estimated macro-econometric equations. The values of variables belonging to the blocks of fiscal (government) and monetary spheres, as well as those in the BoP (balance of payments) block are typically derived due to estimated elasticities/relationships in respect of other variables or accounting identities. In this way, the model's simulation makes available a customised range of macroeconomic variables for each scenario.

Hence, we report those as the most important variables for the purposes of our analysis. Firstly, for each scenario we report GDP growth (as the most general measure of an economy's health), along with the contribution to it made by domestic and foreign demand. We also report unemployment and inflation rates, which are additional intrinsic measures of an economy's general performance. Besides the economy's 'general health', we report specific measures of macroeconomic stability and sustainability, which are crucial for understanding the transition going forward.

Secondly, we report the variables' values by way of characterising the external position of Belarus over the coming years. Economically, these variables are also crucial in terms of macroeconomic and financial stability, but are determined outside the model before they have an impact throughout the economy. For example, a huge current account deficit and/or inadequate level of international reserves may be treated as the preconditions for an episode of macroeconomic and/or financial instability. Lastly, we report the block of variables characterising Belarus' fiscal stance and public debt burden as it transitions, showing the fiscal sustainability of each scenario and the degree of risk associated with public debt.

All three blocks of variables taken together provide a general macroeconomic picture for each scenario. Moreover, they provide the basis for answering questions about the extent to which a particular scenario is acceptable politically within Belarus, what are the potential sources of instability and what assistance may be needed to avoid deleterious consequences.

Given that this study is intended to quantify the economic cost of these various scenarios, it is beyond our remit to assess the political reasoning behind *why* Russia might adopt a particular stance on Belarus, in other words why Russia would move towards a critical or hostile response instead of remaining a passive observer. Much of this will be predicated on global trends and geopolitics, as seen with the nascent Russian intervention in Kazakhstan during January 2022 or possible further invasion of Ukraine. Moreover, given the relative unimportance of Belarus to Russia's economy (unlike the reverse), Russia's main interests in Belarus remain geopolitical and strategic, again beyond the scope of this analysis.

Finally, we acknowledge that Russia's reaction is not the only factor which will influence the path of Belarus' transition, as the state of its economy will also present a set of constraints to which Belarusian policy-makers and the EU must respond. On the plus side, any move towards democratic transition will probably result in removal of sanctions from the West and thus a resumption of lending from the EBRD, the EIB and restoration of activities by the World Bank. However, for the purposes of this exercise, we assume that at the beginning of transition there is a baseline of economic stagnation in Belarus, comprising low growth, debt overhang, increasing poverty and limited external prospects. This economic state will then be specifically affected by the nature of Russia's response. Thus, in practice:

- for **Scenario 1**, Belarus' economic stagnation very much mirrors its condition today and is the starting point for transformation reforms;
- for **Scenario 2**, Russia is more belligerent and we assume that its actions will result in recession for Belarus;
- for **Scenario 3**, outright Russian hostility and associated actions could precipitate a full-blown economic crisis.

3.1 Scenario 1: Restrained Russia

3.1.1 Assumptions of Scenario 1

This is the most optimistic scenario and realistically also the best for Belarus, as it approximates somewhat the conditions of 1989/1991 with Russia not actively working to oppose transformation. For a more recent analogue, Russian behaviour in this scenario would be similar to that demonstrated towards Armenia both pre and post EAEU accession, namely that of studied neutrality. Such an approach would come with expectations of Belarus' likely behaviour (as it did with Armenia), in that the country would remain a neutral actor under the implicit assumption that it would not pursue policies which were actively anti-Russian[14]. Indeed, these would likely be the only conditions under which Russia might remain restrained: a public renouncement of any North Atlantic Treaty Organization (NATO) aspirations, continued enthusiasm for the EAEU, avoidance of a larger-scale trade agreement with the EU and/or some other commitment to remaining open to Russian influence.

Even with a restrained/neutral Russia, though, given the extensive economic links between the two countries, there will still be repercussions for its economy on the way to economic transformation. We thus anticipate that this scenario will entail:

- **A reduction in energy assistance***:* Even in the best-case scenario, it is not envisaged that Russia will help subsidise Belarus' transformation via cheap energy and thus assistance for the country generally will be substantially reduced (as it was in Ukraine and Moldova during better times, that is before Moscow became openly antagonistic to both countries). This will have an immediate impact on SOEs (see below), but may also harm household consumption as prices will increase dramatically.
- **Full membership in the EAEU retained for Belarus***:* Membership in the Eurasian Union benefits Russia in terms of its access to the Belarusian market and it is envisaged that Belarus, so long as it maintains a politically neutral stance, will be allowed to continue in the EAEU. Such an approach would necessarily forestall deeper economic integration with Europe, as a more comprehensive economic relationship along the lines of the Deep and Comprehensive Free Trade Agreement (DCFTA) with Ukraine would not immediately be possible. Hence, at this stage of its transition Belarus would be unable to garner the benefits which would come from expanding its markets to the west; that said, it would also minimise any disruptions that would be caused by a collapse of current trade links. Under this assumption, we also believe that Russian banks will continue to operate in Belarus as a critical source of finance for the private sector[15].
- **Status quo in the Belarusian economy***:* The absence of any concerted response by Russia means that the Belarusian economy will mostly be affected by its own internal weaknesses and the exigencies of transition rather than external disruptions. Accordingly, we anticipate that the present *status quo* will be the economy's baseline. This means that no financial crisis is foreseen at the outset of transition (although it may still occur later due to inherent weaknesses), while macroeconomic imbalances will be similar to the way they are today.

[14] Such an approach could also be likened to 'Finlandisation', the behaviour of Finland during the Cold War to preserve its own freedom and independence while still dealing with the Soviet Union as an interested neighbour (Laqueur, 1980).

[15] According to an official from the EBRD, approximately 30 % of all assets in the banking sector are currently held by Russian banks.

3.1.2 Impact on the Belarusian economy

Macro-financial situation

Under this scenario, the Belarusian economy is expected to develop similarly to its current baseline. However, there are two important distinctions. Firstly, it is assumed that rapid democratic transition in 2022 will allow for avoiding the losses associated with EU and United States' (US) sanctions. Secondly, a number of systemic macroeconomic weaknesses are projected to fade away gradually, such as adverse saving patterns or the lack of responsibility and commitment in macroeconomic policies.

This might allow the economy to realise its growth potential and even expand slightly. However, the big picture of growth potential will not change radically or rapidly. Firstly, this is so because systemic institutional weaknesses cannot be eliminated quickly and thus macroeconomic growth obstacles will also survive, such as a debt burden and restricted economic policies. Secondly, staying as a member of the EAEU is also likely to result in gradual patterns of systemic reforms so as to not disrupt external obligations incurred by prior governments (as well as to avoid Russia using any such disruptions as a pretext for aggression). Incentives within the EAEU, market access and some remaining gas preferences, might act as a soft budget constraint for any new government. Hence, it may lead to some (voluntary) restrictions in regard to institutional changes. Macroeconomically, this scenario is sustainable. It secures sustainably positive (albeit still modest) output growth rate, which is expected to be balanced in terms of the relationship between domestic and foreign demand (see Table 1).

Hence, it is not expected to generate new macroeconomic distortions. Furthermore, these growth parameters comply with a relatively rapid return to a targeted level of inflation (5 %, treated as the binding restriction in the simulation framework). This, in turn, allows for a relatively stable nominal and real exchange rate, in other words not dangerous in terms of triggering a debt crisis.

Table 1. Main Macroeconomic Variables

	2020	2021	2022	2023	2024	2025
GDP growth rate, %	-0.9	2.0	0.8	2.3	2.0	2.0
Contribution to GDP growth, p.p.						
Domestic demand, p.p.	-3.4	-2.9	2.1	1.9	1.6	2.1
Net exports, p.p.	2.5	4.9	-1.3	0.4	0.5	-0.1
Unemployment rate, %	4.0	3.9	4.0	3.9	3.8	3.7
Inflation rate, %	5.5	10.5	12.0	7.0	5.0	5.0

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

From political and social perspectives, the environment generated in this scenario is ambiguous. On the one hand, it allows severe disturbances to be avoided that are highly likely from today's perspective. On the other hand, in a medium-term horizon it is still similar to and possibly better than prolonged stagnation. For instance, in regard to EU-neighbouring countries, this scenario *per se* will not secure a sustainable reduction in the well-being gap.

Regarding its external position (Table 2), this scenario also secures sustainability, in terms of both a reduction of external debt and an improvement in trade (conditioned on treaties with the EU and/or WTO accession).

Table 2. External Position, International Reserves and Debt Obligations

	2020	2021	2022	2023	2024	2025
Current account balance, % of GDP	-0.4	1.1	-0.1	0.0	0.2	0.9
Current account balance, EUR m	-222.6	-620.2	-86.5	4.3	139.7	615.9
Exports, EUR bn	32.7	48.9	50.1	51.9	54.6	57.2
Imports, EUR bn	31.1	46.6	48.2	49.9	52.3	54.1
International reserves, months of imports	2.6	1.7	1.7	1.8	1.8	1.8
Gross External Debt, % of GDP	69.6	62.0	58.0	56.3	53.1	47.7

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

The current account is projected to be maintained in an almost balanced position. The volume of both exports and imports will display growth, stemming relatively equally from Russia and other geographical destinations. Given this near-balanced current account and stable growth, the country will be able to reduce the ratio of gross external debt to GDP.

The fiscal sphere tends to be slightly vulnerable according to this scenario. A loss of revenues associated with Russia's support will steadily cut revenues. The expenditure side needs to adjust, but nevertheless some deficit will be generated, albeit at a manageable level. Given stable growth of output, there should be no increase in the public debt burden. Indeed, on the contrary this is likely to display some gradual decrease.

Table 3. Fiscal Position and Public Debt

	2020	2021	2022	2023	2024	2025
Consolidated balance, % of GDP	-1.8	-0.9	-1.6	-1.6	-1.6	-1.8
Primary consolidated balance, % of GDP	-0.1	0.5	-0.2	-0.2	-0.4	-0.7
Public debt, % of GDP	40.2	34.6	29.6	27.3	26.2	24.9

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

Structural weaknesses

Many of the structural weaknesses detailed in Section 2 are issues internal to Belarus and thus may not necessarily be substantially impacted by Russia's stance in regard to the country's transition, notwithstanding the broader effects that such a stance may have on the economy (thus narrowing or expanding the space in which policy-makers can operate). Property rights protections, for example, require a concerted political push in order to be safeguarded and the presence of any economic stagnation might make such a move much more difficult. Under this scenario, with no imminent Russian threat, property rights reform might paradoxically be less likely. Indeed, this issue might well be held back pending macroeconomic stabilisation. This would mirror Ukraine's experience from 1991 to 1994, where macroeconomic issues and the inability of leaders to carry through macroeconomic stabilisation meant that broader structural issues such as property rights were neglected. By the time structural issues had eventually been properly addressed, there was little political will to move forward in this regard.

This pessimistic scenario is only one possible path, though, and it is also likely that the absence of Russian hostility may mean more breathing space for ambitious reforms, such as sweeping property rights legislation and an overhaul of the rule of law, implying massive judiciary reforms. This would be similar to Poland in 1989, where recognition of inadequacies in the then institutional make-up, coupled with substantial political will, allowed for a rapid transformation of the country's economic institutions (Hartwell, 2016). However, even in this instance Poland faced some semblance of a macroeconomic crisis related to its foreign debt, which may have acted as a brake on tendencies towards state intervention.

Beyond building autochthonous economic institutions for a free market economy, the largest impact in the country's structural challenges from Russia's response will be in the social safety net. Reforms which can root out inefficiency and rationalise expenditures, as well as fashioning a new 'social contract' regarding the extent of social coverage will require a large slice of policy-makers' time. However, it is reform which need not be rushed so long as Russia is not threatening overt hostility or exerting substantial pressure. This is not to say that in general terms reforms should be gradualist in scope or pace, as this may delay much needed reforms for years. The mere lack of Russian response means that Belarus can move at its own pace and not be pressured by economic crisis.

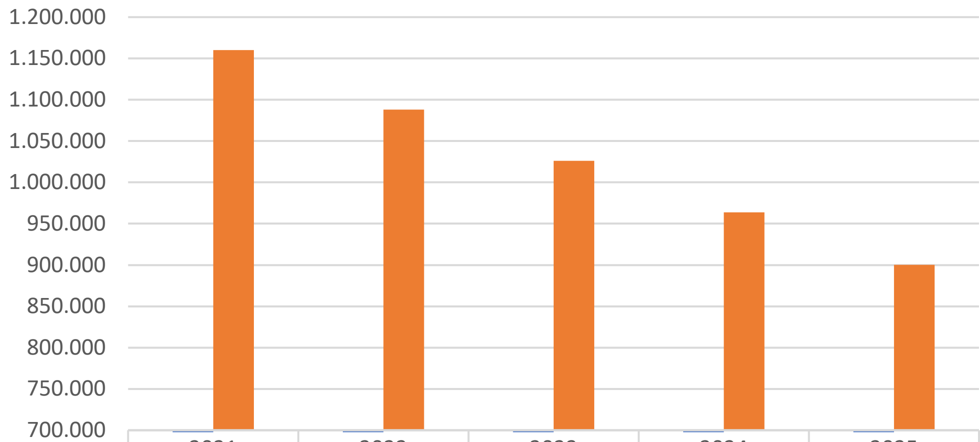
The largest area of social reforms, which will be impacted by Russia's (non) response, will be unemployment insurance. This is certain to be (i) reformed and (ii) stressed with the concurrent reform of SOEs. In any scenario, unemployment insurance and transition adjustment will be needed for workers who are affected by the dismantling of SOEs and the shift of resources to the private sector. However, under this scenario, given the lack of urgency surrounding SOE reform (at least from external pressure), unemployment insurance will be less strained than in other scenarios, where reform is more urgent, crucial and undertaken in an emergency situation.

State-owned enterprises

The major negative effect on SOEs in the 'restrained-Russia scenario' will be felt through the decline in energy subsidies. Overall price effects are not expected to be large, but they might be enough to erode thin (or absent) SOE profit margins. Indeed, energy tariffs in Belarus are cross-subsidised, with Belarusian enterprises (both private and public, with rare exceptions) paying higher tariffs and subsidising low household tariffs. This indirect subsidy to households is inefficient and should be phased out in favour of targeted support. But this phasing-out would also imply that the enterprise tariff might be proportionately lowered, partially negating any energy price increases.

A number of SOEs are particularly vulnerable to energy price increases. For instance, nitrogen fertilisers producer *GrodnoAzot* is among the largest commercial consumers of natural gas, with a workforce of 7 475 in 2019. The *Naftan* and *Mozyr* oil refineries employing 15 029 people will also be sensitive to oil price increases, although the current oil price subsidy is quite negligible. Other chemical industry SOEs might also be more energy-intensive than average. Our SOE employment estimates consider these vulnerabilities for several large enterprises, which in total employ over 37 000 workers.

Figure 13. SOEs employment and aggregate unemployment rate under Scenario 1



	2021	2022	2023	2024	2025
Unemployment rate	4,0%	3,6%	3,4%	3,2%	3,1%
SOEs employment	1160271	1087972	1026116	963587	900237

Source*:* Authors' own calculations based on data from Belstat, UN World Population Prospects (2019)

Our estimates suggest that over a four-year period since the start of democratic transition, SOE employment will decline by over 260 000 people, equivalent to 22 %. However, this decline would be accommodated by a mixture of population ageing and economic growth in the private sector. Hence, on balance the unemployment rate will not increase.

To support regions most affected by energy price increases and other deprived areas, international assistance could be directed into SMEs' development programmes, with technical assistance to employment services in those regions (approximately 10 areas). The reform of vocational education and training (VET) could also be launched with an international loan. SOE sector reforms should be jump-started with audit and consulting for the 104 strategically important SOEs.

Other governance issues

With regard to agriculture, Scenario 1 implies that Belarus keeps all its trade ties with Russia, but at least partially loses its energy subsidies. This state of affairs will allow Belarus to maintain a positive balance in agri-food trade with Russia, as well as preserve employment in its rural areas. However, the energy situation and increased prices will force the least efficient farms to be squeezed out of the market, while at the same time excessive employment at state-owned farms will also have to be radically decreased due to increased costs. Any negative effects from energy input price growth can be partially offset by higher demand for renewable resources, such as biodiesel and biogas (the share of which is currently negligible), but nevertheless this is a much longer transition, dependent on many factors beyond Belarus' control.

Transition to a free-market economy, though, would require fully-fledged reform of the farming sector. The scope for such changes will depend on the future political landscape due to political sensitivities and it is quite possible that any democratically elected government will abstain from changing the land ownership structure (privatisation of agricultural land) for the first years of reforms (similar to what happened in neighbouring Ukraine, where there was a land sale moratorium in place for 21 years). Other market reforms seem to be more feasible in the shorter run, including:

- Privatising food processing;
- Abolishing direct administration of primary agricultural production as well as upstream and downstream operations (input supply and food processing), including removing any and all price regulations, direct lending, production targeting, or resource zones;

- Reforming the system of state support of agriculture according to WTO rules;
- Privatising the least efficient farms;
- Excluding the least productive land from agricultural use;
- Improving the legislative framework for corporate governance in the agri-business sector;
- Increasing the operational efficiency of agricultural production;
- Radically decreasing excessive employment at state-owned farms;
- Diversifying export flows via better market research.

These broader areas can be supported by external agencies and organisations, in particular in:

- Support of privatisation, including capacity building of state agencies and local authorities;
- Development of agricultural science and the Research & Development sector, including support in reforming the National Academy of Science, educational system and VET, introduction of digital solutions in precision agriculture;
- Development of global/regional value chains including Belarusian agricultural producers (not currently existing export channels for crops);
- Shifting towards Biofuel technology by increased production of biodiesel and biogas;
- Enabling access to finance and credit guarantees in the agricultural sector;
- Supporting trade financing and export support measures;
- Providing political support for WTO accession.

External issues and dependence on Russia

Under this scenario, the impact on international trade will be very limited if Belarus continues to be an EAEU member, as it will continue to have duty free access to its major markets. This approach will unfortunately preclude deeper integration with EU markets, however, and must be considered as a longer-term cost which cannot be factored into the economic model; that is, while remaining in the EAEU will lessen the short-term transition costs, it may continue to lock Belarus into a sub-optimal path regarding its external prospects. The difficulty for the new Belarusian government will then be to decide if the EAEU is worth it as part of the transition merely to ensure that Russia does not transit from Scenario 1 to Scenario 2 (i.e., becomes much more hostile).

Even with Belarus remaining in the EAEU, any decline in Russian energy subsidies would cause the country's international competitiveness in its main export sectors to deteriorate (fuel, transportation equipment, metals, machinery and electrical equipment). Moreover, declining (processed) fuel exports to Western countries will impact the availability of foreign currency to repay Government of Belarus issued USD-denominated bonds. These bonds make up 80% of Belarus' external debt issuances in 2020 and the government has relied heavily on them as a source of financing[16]. Yet, under these circumstances this will possibly not be a major issue, with smaller trade diversion effects easily alleviated by improved access to international export markets and international financial markets.

[16] Data on debt issuance from the National Bank of Belarus.

3.2 Scenario 2: Critical Russia

3.2.1 Assumptions of Scenario 2

While there is hope that the prospect of a stable, non-erratic and/or dependent Belarus on Russia's borders would be welcomed in the Kremlin, the reality is that the loss of another country from Russia's sphere of influence, especially on its borders with NATO, will not be warmly greeted in Moscow. The Russian response would likely be exacerbated if the new Belarusian leaders discarded any pretence of neutrality, openly discussed EU accession or joining NATO (even without taking concrete steps in this direction), or it might be triggered by just furthering ties with the EU through a DCFTA, as in Ukraine. Thus, we must consider that under this second scenario the Russian response could be far more critical:

- **Reduction of energy assistance***:* In a scenario where Russia takes a critical stance towards Belarusian transformation, it is likely that this would bring about significant curtailment of any energy assistance and even selective embargoes similar to those introduced in January 2007 (Balmaceda, 2014). Accordingly, Russia would turn off energy supplies to influence Belarusian behaviour (this would also mirror action taken against Ukraine and Moldova at various points over the past 15 years). As noted in the previous scenario, this would have a direct impact on SOEs and households but is likely to be much more harmful to the Belarusian economy generally during its transition, forcing the country to find new sources of energy.
- **End of preferential treatment under the Customs Union and/or EAEU**: While the EAEU may allow Russian access to the Belarusian market, its comparatively small size means that Russia would have little hesitation in throwing an EAEU founding member out of the trade bloc and/or that Belarus would not look for additional options outside of the EAEU umbrella. This would cause a trade collapse with effects similar to the 1991 ending of the Council for Mutual Economic Assistance in Central and Eastern Europe (Lányi, 1993), as trade links would be severed overnight. In addition to any trade impact, loss of free movement for people would also result in either a substantial influx of Belarusians from Russia (a declining number according to the 2010 census, albeit still over half a million people) or a precipitous fall in remittances (which comprised 2.2 % of GDP in 2019, according to the World Bank).
- **Sanctions***:* Russia has been notorious for instituting sanctions on countries based on flimsy pretexts, mainly predicated on health and safety issues (Svoboda, 2021), with the goal of influencing these countries' internal affairs (Newnham, 2015). Such sanctions have been triggered in the past against Ukraine, Moldova, Georgia and other countries in the post-Soviet space. It is highly likely under a 'critical-Russia scenario', that they would also be utilised against Belarus. Any appliance of sanctions would clearly move beyond the energy lever noted above and expand to other trade and/or possibly financial movements, including the withdrawal of the substantial assets held in the banking sector by Russian banks.
- **Low-level harassment:** Since 2014, Russia has been engaged in state-sanctioned and quasi-state harassment ('hybrid tactics') in Ukraine (in addition to the more obvious military incursion), including cyber-attacks (Sullivan and Kamensky, 2017), along with attempted and successful assassinations[17]. While these actions may not disrupt overall economic transformation, they can strike at some of the associated political and institutional changes necessary in Belarus, as well as possibly undercut public support for the transformation.

[17] See, for example, the strange case of 'Alex Werner' a Russian assassin masquerading as a reporter who assassinated two Ukrainians and very nearly a third. The background on this is detailed in 'Masquerading as Reporter, Assassin Hunted Putin Foes in Ukraine,' *New York Times*, June 9, 2017, available at:
https://www.nytimes.com/2017/06/09/world/europe/ukraine-assassin-russia-putin-amina-okuyeva.html

- **Significant deterioration in the current state of the economy:** With a Russia opposed to such reforms in Belarus, we anticipate that the economy will deteriorate, especially as energy assistance is withdrawn and trade links are disrupted. While any transition will necessarily create a 'transformational recession' (Kornai, 1994), the Belarusian economy will face additional obstacles with: the artificial disruption of trade; the removal of subsidies; and belligerent actions from the Russian side. This is likely to prolong the timing and increase the severity of any transformational recession, which will call for additional donor aid.

3.2.2 Impact on the Belarusian economy

Macro-financial situation

An important distinctive feature for simulating this scenario is considering the two main sources of recession near the assumed period of democratic transition, namely in 2022. It is thought that before democratic transition, the economy would be negatively affected by export sanctions from the EU and the USA, causing the Belarusian economy to go into recession. However, if Western sanctions were removed directly after the democratic transition and funding from International Financial Institutions (IFIs) resumed, this would generate a positive impact on the country's economy. This could potentially be a countervailing force to Russia's economic pressure (as specified in the scenario assumptions). This ordering of events will bring two shocks to bear within one period (the 12 months of 2022) and thus makes them intermediate. Hence, under this scenario, 2022 is the (arbitrary) critical year, namely that with a severe and sharp negative treatment somewhat mitigated by the removal of sanctions. We do not assume any other direct support from the West besides the removal of economic sanctions.

Naturally, given this set of preconditions, the transition results in a deep (roughly 9 %) recession, but with a V-shaped recovery. The recession would be caused mainly by a strong decline of foreign (Russian) demand, which would only gradually be compensated for by exports to the West. In other words, net exports would drop by almost 6 % in 2022 and stay slightly negative for the following two years. Domestic demand would also be negatively affected, but would recover more quickly than in other scenarios, with the model implying calmer domestic adjustments (see Table 4); this is due to the fact that global supply chains would not be dramatically disrupted, leaving the domestic sector less exposed to external conditions.

Table 4. Main Macroeconomic Variables

	2020	2021	2022	2023	2024	2025
GDP growth rate, %	-0.9	2.0	-8.9	1.1	-0.4	-0.0
Contribution to GDP growth, p.p.						
Domestic demand, p.p.	-3.4	-2.9	-3.0	1.5	0.1	-0.0
Net exports, p.p.	2.5	4.9	-5.9	-0.4	-0.5	0.0
Unemployment rate, %	4.0	3.9	5.9	6.0	6.4	6.7
Inflation rate, %	5.5	10.5	15.0	8.0	6.5	5.0

Source*:* Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

In the medium term, changes in these real variables do not devolve into catastrophe for the economy, although the short-term dynamics would be painful for Belarusians: specifically, the 8.9 % decline in GDP growth in 2022 implies a considerable income and consumption shock for Belarusian households. However, the unemployment rate would only moderately rise from 3.9 % to 5.9 % which might stress the social security systems in Belarus, but a total collapse is likely to be avoided. Most adjustments in this scenario will occur in terms of salaries and not in employment. Having adjusted to a new environment, the economy will display a trend towards slight recovery and further stabilisation. Growth rates post-transition are still low and even negative in 2024, yet the income and consumption shock would mainly be concentrated in 2022. Thus, while the democratic transition causes adjustments of income and consumption in levels, it does not trigger a downward spiral of the economy. However, the biggest challenge to this scenario is the ability to realise potential for recovery/stabilisation, as a huge and persistent current account deficit will act as a major obstacle (see Table 5), resulting from insufficient exchange rate adjustment. Allowing the exchange rate to depreciate more is associated with the possibility of a debt or financial crisis[18].

There are different options for overcoming this contradiction. The first 'extreme' (reflected in the simulated scenario for 2023-2025) assumes financing the current account deficit as a short-term solution. Hence, securing sources of finance turns out to be the policy agenda's key priority. However, a rapid accumulation of gross external and public debt, which is likely to be denominated in foreign currency at rather high interest rates will sooner or later become unmanageable. Debt servicing would increase significantly from its current level of 11 % of GDP, leaving very little or even no room for any discretionary fiscal policies.

Table 5. External Position, International Reserves and Debt Obligations

	2020	2021	2022	2023	2024	2025
Current account balance, % of GDP	-0.4	1.1	-5.7	-6.8	-7.9	-7.5
Current account balance, EUR bn	-0.22	0.62	-3.28	-3.99	-4.87	-4.79
Exports, EUR bn	33.0	49.3	41.7	42.2	43.3	44.5
Imports, EUR bn	31.3	46.9	42,9	44.0	45.3	46,5
International reserves, months of imports	2.9	1.9	2.2	2.3	2.3	2.3
Gross External Debt, % of GDP	69.6	62.0	69.1	74.1	77.9	80.1

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

Another 'extreme' is allowing the exchange rate to depreciate enough to stabilise the current account. In the case of Belarus, this strategy would probably cause massive financial turmoil, as depreciation is expected to increase the external debt burden if the country were to borrow substantially in foreign currency – which is already the case for Belarus. This will not only concern the public sector but also private households, firms and banks. This could lead to a large number of bankruptcies which would be especially harmful in the financial sector. Moreover, while depreciation increases the competitiveness of exporting firms, it also raises prices for imports. This will harm households considerably as 11 % of all imports are food items and thus cannot easily be substituted. Predicting the exact outcomes of such turmoil is virtually impossible, as it depends on numerous factors and only roughly manageable variables, including non-economic aspects. On the one hand, it could push the economy into a long-term depression, due for instance to the financial system's disruption and these shocks being transmitted into the real economy. Moreover, undermined financial trust can then become a persistent obstacle for further recovery. On the other hand, if managed successfully such a financial crisis can also act as a purification process, making possible a radical removal of the low-quality debt pyramid. A sharp depreciation can, in turn, compensate for a corresponding negative impact through spurring economic activity, particularly export trade, because of improved price competitiveness.

[18] Technically in the model, it is realised through the set of restrictions on the exchange rate and inflation rate, which reflect the threshold values giving a rise to debt/financial crisis.

Table 6. Fiscal Position and Public Debt

	2020	2021	2022	2023	2024	2025
Consolidated balance, % of GDP	-1.8	-0.9	-3.7	-4.3	-4.8	-5.1
Primary consolidated balance, % of GDP	-0.1	0.5	-2.2	-2.8	-3.4	-3.9
Public debt, % of GDP	40.2	34.6	36.3	38.6	42.6	45.5

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

Although each strategy is ambiguous, we assume that unless a full-fledged financial crisis is treated as inevitable, dramatic depreciation of the Belarusian rouble should be avoided. Instead, a reasonable strategy might be to attempt activating the first option for a limited period, alongside seeking structural solutions for improving the external position. Maintaining and financing the gap could work in the short term or until the level of debt burden becomes an urgent issue. This will protect against immediate financial turmoil and corresponding losses of output. If during this phase other solutions for improving the external position are found, then the strategy has worked. However, there are no obvious and evident solutions for solving the task. The fiscal deficit under this scenario expands, as Table 6 demonstrates.

As the economy recovers just slightly (2023-2025) after a severe drop (2022), the level of revenues would decline in real terms, being roughly stable in terms of GDP share, given high inflation. At the same time, expenditures will expand due both to smoothing their real values under high inflation as well as activating some fiscal stimuli and stabilisers.

Structural weaknesses

A critical Russia may give rise to several issues which need to be addressed for tackling Belarus' structural weaknesses. In the first instance, pressure brought to bear by Russia may worsen the economy (as just noted), leaving policy-makers with little fiscal space to manoeuvre. Such an outcome may also taint any support for broad-based property rights protections, as policy-makers would be blamed for economic conditions and any radical changes – even when necessary – would be necessarily side-lined in favour of immediate crisis mitigation. Alternatively, as noted above, there might be the opposite effect, with the public perceiving existing economic institutions as ill-equipped to handle the new economic reality (and especially an ongoing crisis), meaning policy-makers would have the leverage to implement more rapid changes in the country's institutional make-up. This could then lead to a more successful climate for bold structural reforms. This is more likely to be the situation presented in the justice sector, where corruption is clearly evident, rather than in property rights, but both could be considered in the event of a deteriorating economy.

The lack of fiscal space would be most harmful for the planned reform of SOEs and thus the social welfare system, upon which more citizens would become reliant. This would, in turn, make reform more difficult to realise. Under this scenario, the trade-related effects (see below) would also increase the number of people unemployed, making transition support for affected citizens all the more crucial. It is thus anticipated that external aid would be much more important under this scenario, both to aid any reforms in this sector and also possibly to fill any budgetary holes which the worsening economy would have created.

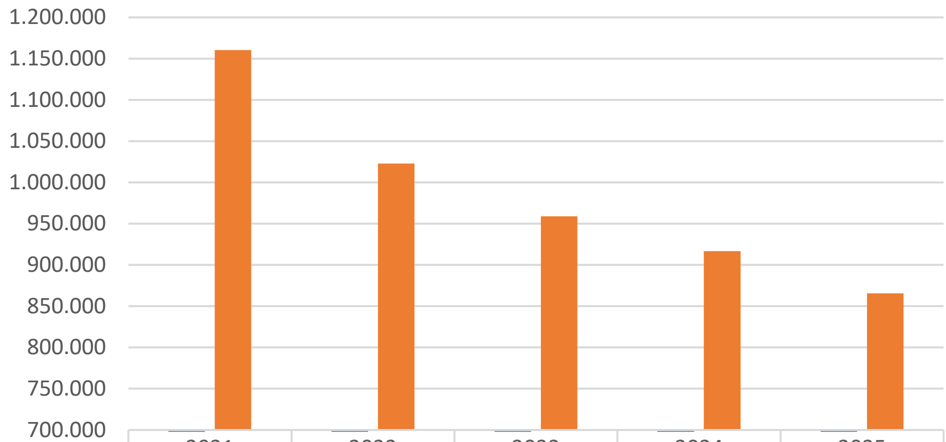
State-owned enterprises

In the second scenario, aside from the withdrawal of energy subsidies, SOEs would be faced with restrictions on the Russian market, which would affect specifically those enterprises involved in the processing, textiles, machinery and automotive industries. As employers of around 250 000 people, these SOEs would not be able to reorient to EU markets due to restrictions or low competitiveness.

According to our estimates, SOEs employment would see larger contractions under this scenario, in the order of 295 000 people or 25 % of the total SOE workforce. Unemployment would increase as the private sector would also be significantly negatively affected and the economy would contract. Population ageing would not be enough to prevent unemployment from reaching 5.9 %, with a long-term average of 4 %.

Belarus would require additional loans to finance the temporary extra needs in unemployment assistance. We are assuming an unemployment benefit level equivalent to the minimum wage (around EUR 150 per month currently). We also assume that the country would seek loans to cover benefits only for the above-average unemployment levels (when the unemployment rate increases above 4 %), while its own public funds previously spent on support for SOEs would be enough to cover a 4 % unemployment level with the corresponding benefits. Regional development support would also need to be increased as the number of heavily affected areas would rise to around 15. Other international support requirements remain relevant, including loans for VET reform; grants for technical assistance supporting employment services; as well as funding for SOE audit and consulting services.

Figure 14. SOEs employment and aggregate unemployment rate under Scenario 2



	2021	2022	2023	2024	2025
Unemployment rate	4%	5,7%	5,9%	5,4%	5,3%
SOEs employment	1160271	1022906	958789	916787	865510

Source: Authors' own calculations based on data from Belstat, UN World Population Prospects (2019).

Other Governance Issues

This scenario implies that Russia will at least partially decrease its food imports from Belarus as it has already done over the past 20 years with the EU, Moldova, Georgia, Ukraine and Turkey. This reduction is likely to result from (mis)use of the sanitary and phytosanitary control system by Russia against Belarus tying up bilateral trade with concerns over 'public health' rather than working through specifically Custom Union or EAEU mechanisms. By doing so, Russia would probably significantly limit the access of its citizens to quality foodstuffs, especially dairy products, which increased dramatically after sanctions were imposed on Russia in 2014 and 2015 (over half of all its imported cheese and butter originates from Belarus, see Table 7).

If Russia, at least partially, bans Belarusian foodstuff imports, a symmetrical response can be expected from the Belarusian side, damaging Russian food producers' export operations of around EUR 1.32 billion.

Table 7. Foreign trade in Belarus and Russia in selected commodity groups, 2013 and 2020, EUR m.

Selected commodity groups	Exports from Belarus						Imports to Russia			
	World		Russia		Share of Russia, %		World		Share of Belarus, %	
	2013	2020	2013	2020	2013	2020	2013	2020	2013	2020
Cheese (0406)	571	936	552	880	96.6	94.0	1908	1075	28.9	81.8
Butter (0405)	315	341	290	312	92.2	91.5	614	528	47.3	59.2
Meat (02)	874	717	839	467	96.0	65.2	5938	1265	14.1	37.0

Source: UN COMTRADE (2021).

All transformation measures from the previous scenario will remain on the agenda but will probably need to be supplemented with emergency and radical export diversification measures, hence calling for quick action. The EU would be able to help ease this transition via preferential access to EU markets, mitigating the loss of Russian markets, but even emergency arrangements would take time to implement as Belarusian producers would need to adapt and adjust to EU quality standards, as was the case with Ukraine. Moreover, strong political commitment from the EU would also be necessary, together with technical assistance to help implement EU quality standards in food processing (the most likely candidate for driving agricultural exports in Belarus). This sizeable challenge may be helped along somewhat by the fact that Belarus has highly concentrated food production and processing, making the standardisation process easier compared with other post-soviet countries (Moldova, Georgia), while high production volumes could be beneficial in accessing European retail chains (Gutbrod 2020).

External issues and dependence on Russia

This scenario describes a situation with limited dependencies on Russia, a powerful change from Belarus' current situation, thus implying considerable disruption and negative economic effects in the short term. Losing access to the EAEU will distance Belarus from its current main export markets (44 % of total exports in 2019). We assume that the country will at least receive the same benefits as WTO members, namely most favoured nation (MFN) tariffs. An unweighted average of MFN tariffs of the EAEU members is about 7.39 %, with peaks for, *inter alia*, meat and edible meat offal (over 20 %), dairy products (over 13 %), but also considerable tariffs for vehicles (7.7 %) and fertilisers (6.3 %) (UNCTAD TRAINS, 2021). Parts of this tariff spike could be balanced by greater market access to the EU – especially over the long run, but this is out of the scope of our modelling – but much lower current Belarusian exports to the EU coupled with the relatively low competitiveness of key Belarusian industries can only partly offset this negative effect, unless the EU can move swiftly to open market access to Belarusian goods. Egger et al. (2020) estimate that, for a small open developing economy with flexible labour markets, a 1 % increase in trade costs will cause a decrease in employment of up to 0.8 %. This effect might be even greater for non-market economies[19]. For Belarus, a small economy which would be developing as part of the transitioning and concurrently moving towards more flexible labour markets, this would imply that unemployment due to EAEU tariffs would rise by at least 2.6 %[20].

The reduction of energy subsidies will even further contribute to economic decline in Belarus as intermediate input prices increase and the competitiveness of exporting firms declines. This will ultimately lead to some decline in foreign currency reserves, making the repayment of loans more difficult. As Russia is Belarus' main creditor, we assume that Russia will not accommodate Belarus in this regard, which could in turn also lead to inflationary pressure in the Belarusian economy.

Belarusians currently living in Russia might also return to Belarus, which will further increase pressure on local labour markets. Yet, returning emigrants are likely to be skilled workers who would support economic development. This is especially true for the large number of Belarusians that previously migrated to Western countries.

3.3 Scenario 3: Openly Hostile Russia

3.3.1 Assumptions of Scenario 3

This scenario, the most pessimistic of all three, has a parallel in recent history, being most similar to what has happened to Ukraine since the 2014 Maidan Revolution of Dignity. An openly hostile scenario towards Belarus would consist of Russian actions similar to those witnessed in Ukraine over the past seven years, including shunning any successor government to Lukashenko's and openly waging a hybrid war against the country on a number of fronts. It is impossible to predict what would lead Russia to conclude this is its best course of action, as can be witnessed from current (January 2022) aggressive moves Russia is making towards Ukraine. We can conjecture that possibilities would include Belarus fully moving West, in terms of applying for NATO and EU membership, abrogating all relations and existing treaties with Russia, accepting military aid from European countries (and the USA) and/or actively taking a stance against Russian moves worldwide (for example, in the United Nations). However, given the erratic nature of the current Russian regime, the trigger for this scenario might be as benign as falling approval ratings at home (as occurred in late 2013/early 2014) or even sensing an opportunity to pounce on perceived weakness (as in Syria, where US President Barack Obama offered empty threats and immediately backtracked). Russian actions would include:

- **Full elimination of energy assistance and use of energy as a weapon***:* The openly hostile scenario envisages a step beyond 'openly critical' with the full embargo of energy products to Belarus, forcing the country to find other sources of energy immediately.
- **End of any preferential treatment in the Customs Union and/or the EAEU**: As in the previous scenario, Belarus would be unceremoniously removed from any international organisations with full Russian support, leading to an end of any preferential treatment and subjecting the country to the EAEU's external tariff. As before, this also ends the free movement of capital and people between Belarus and EAEU member states.
- **Sanctions and embargoes***:* Russia's response in utilising sanctions and embargoes under this scenario is similar to the 'critical scenario', but goes much further in terms of coverage. Rather than a discrete use

[19] Belarus has a trade to GDP ratio of almost 0.7 and thus can be seen as an open economy. And while labour markets might not be very flexible at the beginning of transition (i.e., the current state of affairs), we assume that, during the major economic downturn accompanying transition, labour market flexibility will be increased substantially mainly due to SOE reforms.

[20] The EAEU accounts for 44 % of all Belarusian exports, thus the effect would be 44 % x 7.39 % x 0.8 = 2.6. This number is a rough estimation and a lower limit, as the large SOE sector compresses the unemployment rate due to inefficient over-employment. However, these companies might be hit hardest by increased barriers to trade.

of sanctions to influence particular decisions, sanctions become permanent, with various Belarusian goods either being banned or subjected to quotas under the guise of health and safety.

- **Extreme harassment, as with Ukraine***:* Whereas the critical scenario envisages lower-level harassment of government officials, cyber-attacks and perhaps increased espionage along with sabotage, this scenario foresees Russia acting openly in its use of hybrid tactics to destabilise Belarusian efforts. As with Ukraine and Georgia (Nilsson 2018), this may also include military incursions, territorial aggrandisement and unleashing the full force of state propaganda towards Belarus and its population, denying *inter alia* that Belarus is an independent state and/or there are any differences between Belarusians and Russians.
- **Economic crisis/Brain drain and exodus of workers**: Russia's overt hostility and the combination of these actions towards the Belarusian economy would more than likely lead to a financial crisis and severe economic contraction. Moreover, the effect of such a meltdown, occasioned by extreme isolation from its traditional markets and before new connections have been forged, may be sufficient in forcing Belarusians to flee west, especially in the event of open military incursions into the country by Russia, as with the invasion of Eastern Ukraine in 2014 which led to a large number of Ukrainians moving to Poland. This will certainly have repercussions going forward for Belarus' stock of human capital.

3.3.2 Impact on the Belarusian economy

Macro-financial situation

This scenario makes possible differentiation between isolation, in other words ignoring the impact of Western sanctions, and relatively mild shocks associated with Russian pressure as well as an openly hostile policy. The ordering of events assumes democratic transition early in 2022, which results in the elimination of Western sanctions. However, Russia begins its pressure immediately, leading to a similar result as in Scenario 2, namely a sharp decline of economic growth driven by falling exports (mainly to Russia). This leads to a current account deficit that could trigger depreciation of the Belarusian rouble.

The output dynamics under this Scenario results in an extremely deep and prolonged recession. Following a second year of stress, output contracts by roughly 17 % (Table 8). Such a huge contraction results from numerous channels of economic dependence on Russia being disrupted alongside domestic input-output linkages.

From the demand side, the slowdown in 2022-2023 can be roughly equally explained by changes in external and domestic demand. We project domestic demand as dropping by 7.1 % in 2023 due to supply chain disruptions. Indeed, Russia's economic response will severely disrupt domestic production linkages and thus cause a major negative shift in domestic demand conditions. With regard to external conditions and in contrast to the first Scenario, Russia limits trading with Belarus to a much greater extent, which would lead to a sharp drop in imports and exports in 2023 (Table 9), with net exports also falling by 5.1 %. This state of affairs would persist from 2023 as (similar to the second scenario) the limiting of access to the Russian market cannot be fully compensated for by increased exports to the West (which could be expected after the lifting of sanctions).

Table 8. Main Macroeconomic Variables

	2020	2021	2022	2023	2024	2025
GDP growth rate, %	-0.9	2.0	-5.0	-12.2	4.2	3.9
Contribution to GDP growth, p.p.						
Domestic demand, p.p.	-3.4	-2.9	0.2	-7.1	1.1	1.9
Net exports, p.p.	2.5	4.9	-5.2	-5.1	3.1	1.9
Unemployment rate, %	4.0	3.9	5.2	7.8	7.3	6.8
Inflation rate, %	5.5	10.5	15.0	35.0	25.0	15.0

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

A 'hostile Russia'-induced recession would be more painful than that attributed to the 'critical Russia' Scenario, as the GDP drop occurs not only in the transition year 2022, but also in 2023, thereby implying a longer and deeper recession. Government policies aiming at smoothing the domestic demand shock, for example by increasing government expenditures (consumption and investment), would need to be sizeable to compensate for a two year drop in domestic demand by 5 % and 12 %. Additionally, a huge jump in unemployment rates would be experienced, which would remain for a number of years. Such levels of unemployment would be unprecedented for Belarus, which to date has been used to relatively few people being out of work.

Table 9. External Position, International Reserves and Debt Obligations

	2020	2021	2022	2023	2024	2025
Current account balance, % of GDP	-0.4	1.1	-4.6	-21.7	-17.2	-13.6
Current account balance, EUR bn	-0.2	0.6	-2.7	-10.5	-8.2	-6.8
Exports, EUR bn	32.7	48.9	41.0	27.0	29.3	32.0
Imports, EUR bn	31.1	46.6	41.7	35.2	34.9	36.1
International reserves, months of imports	2.9	1.9	2.3	1.5	1.5	1.5
Gross External Debt, % of GDP	69.6	62.0	65.3	101.6	118.5	123.2

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

Qualitatively, the position in regard to Belarus' external position is similar to the 'critical scenario' (Scenario 2), with the issue of financial stability tied to projected fluctuations in the exchange rate. However, under this scenario, the size of these imbalances becomes significantly higher both in absolute and relative terms, as detailed in Table 9. Even conservative estimates of changes in the exchange rate and inflation are so large, that avoidance of severe financial turmoil would be unrealistic.

Furthermore, even a massive nominal adjustment would not be sufficient to restrict the current account deficit to any reasonable and financeable level. In relative terms, the current account deficit jumps up to roughly 22 % and stays in double figures thereafter. In absolute values, the financing gap would be so wide as to make unrealistic any likelihood of sufficient funds being attracted to offset the deficit. Even if we assume hypothetically that enough borrowing would be forthcoming, it immediately results in Belarus having an unaffordable exposure via gross external debt levels. Rapid defaults on corresponding debts are again inevitable in such a case.

A similar story develops in the fiscal sphere (Table 10 below). Even restricted smoothing of dropping expenditures, given high inflation, results in an unacceptably high level of fiscal deficit. Activating additional fiscal stimuli to smooth output would expand the deficit even more. If assuming that the deficit is nevertheless run and financed, the rapid growth of public debt will inevitably lead to sovereign default.

Table 10. Fiscal Position and Public Debt

	2020	2021	2022	2023	2024	2025
Consolidated balance, % of GDP	-1.8	-0.9	-3.4	-6.8	-6.5	-7.1
Primary consolidated balance, % of GDP	-0.1	0.5	-2.0	-5.0	-4.7	-5.6
Public debt, % of GDP	40.2	34.6	35.5	57.3	69.5	76.4

Source: Belstat (2021c and d), authors' own modelling simulations for 2021-2025.

The main conclusion to be drawn here is that this scenario is not sustainable in macroeconomic terms. Escaping from this situation will necessarily involve financial turmoil, which will effectively break the vicious circle of structural and macroeconomic distortions. In this case, it would be reasonable for the goals of economic and institutional policies not to be focused on preventing recession and financial turmoil. Instead, they should aim at smoothing the recession and managing the financial turmoil in a manner which will purify the economy from macroeconomic distortions. Institutional policies should be more oriented towards enhancing productivity gains and reinvigorating growth thereafter.

Structural weaknesses

Much like Scenario 2, the prospect of an overtly hostile Russia may either catalyse institutional change at a rapid pace, mirroring the 'big bang' conditions of Poland and Estonia in the early 1990s, or make the country grind to a halt, as with Georgia and Moldova from the same time period. Property rights protections, reform of the justice sector and overall business environment reforms are much more likely to be side-lined in a crisis situation such as this until crisis parameters are established and the existential threat assessed; only when a crisis has settled into some resemblance of normality can reforms begin in earnest, as demonstrated in Ukraine after Maidan in 2014.

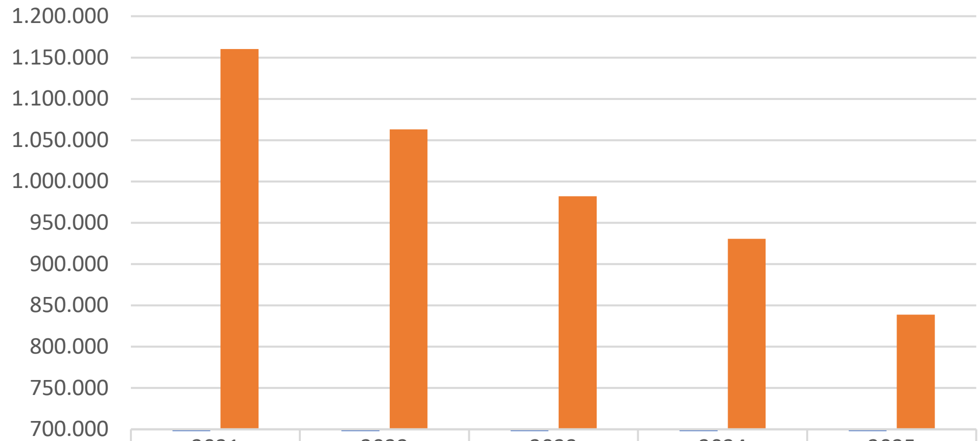
As with other scenarios, the biggest weakness to be impacted by Russia's intransigence will be social spending, which may necessarily be heavily relied upon during this period, especially if there is overt conflict (which may generate refugees) or a complete cessation of Belarusian access to Russian markets. In this scenario, vital social spending system reforms may also be delayed in order to clarify the system's safety net features, with crucial rationalisation postponed until the crisis situation has passed. This would also necessarily go hand-in-hand with any delay in restructuring SOEs, as noted in the next section.

State-owned enterprises

Under Scenario 3, state-owned oil refineries would be drastically affected, with the possible oil supply halt putting a temporary stop to production. As experience during the first quarter of 2020 has demonstrated, Belarus is capable of securing alternative oil supplies within two/three months, but the processed volumes would be significantly more modest. Natural gas supplies would be more complicated, putting *GrodnoAzot* and energy intensive SOEs at risk. Access to the Russian market would also be more significantly reduced, if not barred. Aside from aggregate effects, those SOEs which are particularly badly affected (employing over 280 000 people) will lose jobs at higher-than-average rates.

Our estimates show that SOE employment will contract by almost 300 000 jobs in total up to 2025, with the largest decrease of almost 100 000 jobs being experienced during the first year of transition. Accompanied by a deep recession, the contraction of employment in SOEs would lead to substantial increases in unemployment, which would reverse only as the economy adjusts to its new path and starts to recover in 2024 (as predicted by our model and shown in Table 8).

Figure 15. SOEs employment and aggregate unemployment rate under Scenario 3



	2021	2022	2023	2024	2025
Unemployment rate	4%	5,4%	6,3%	5,6%	4,7%
SOEs employment	1160271	1062906	982083	930541	838975

Source: Authors' own calculations based on data from Belstat, UN World Population Prospects (2019).

As in the previous scenario, Belarus would need support to finance additional unemployment, assistance necessitated by dislocations resulting from rationalisation and reforms of the SOE sector. Using the same 4 % level for unemployment as in Scenario 2, the required resources are on average 25 % higher between 2022 and 2025 than in the 'critical' scenario. Much as in the previous scenario, regional development support would also be required to avoid a deep recession across the country. Finally, we envisage other international support requirements remaining relevant for this scenario, albeit at a higher level than in Scenario 2, meaning: an increase in loans for VET reform; grants for technical assistance supporting employment services; as well as funding for SOE audit and consulting services.

Other Governance Issues

This scenario creates serious implications for the Belarusian agri-food sector, including the possibility of: introducing quotas; implementing bans and embargoes on the Russian market; as well as abolishing free trade within Customs Union/EAEU. Russia's overt hostility will also certainly put an end to all food re-export schemes which have existed in Belarus since 2014, cutting output and exports in agriculture as well as food processing across the board. At the same time, Russia's actions will also lead to a corresponding decrease in the volume of purchased inputs from Russia, including non-processed foodstuffs, machinery, and energy goods (oil and gas).

Diversification of exports will become the main and most urgent issue. For decades, the Russian market has been readily available for Belarusian food producers, requiring little effort and thus a clear disincentive for producers to increase the geographical scope of their export operations. Yet, according to numerous studies, Belarusian agricultural exporters may have a comparative advantage in some European countries (both EU and non-EU), Northern Africa, the Middle East and East Asia (Nivievskyi, 2011; Movchan, 2018 and 2019). As noted previously, export support schemes will probably need to be introduced as well as a concerted plan for the enabling environment surrounding the development of downstream operators, such as wholesale traders and (especially) logistics companies. This would need to be coupled with supporting standardisation and certification processes to meet international health and safety requirements.

Beyond the mere question of *where* to sell, is the more pressing issue of *what* to sell. This exogenous shock from Russia will mean that agricultural production will inevitably have to change its structure from primarily producing and processing animal origin products to crop-growing, a massive change from the current structure of production. This transformation will also require an internal technological shift, making crop production more intensive with higher energy inputs per hectare and hence higher yields. Furthermore, new logistic paths and market structures will need to be introduced in the crops trade, involving: wholesalers; commodity exchange; and financial organisations. There is also a huge potential for biogas production (corn silos, animal manure) and biodiesel (rapeseed) for internal use but, as noted above, this is a much longer-term transition which will not reap dividends for many years.

The further shock that this will have on the economy will be similar to other SOEs, as agriculture and food processing companies are concentrated in rural areas and small towns with rather scarce employment opportunities. A drastic decrease in production and necessary reforms of state-owned farms and processing companies will release at least one-third of current employees, requiring substantial transition assistance for the newly unemployed. On a brighter note, though, this would already need to be contemplated as part of any SOE reform (see above) and thus would not be a separate budgetary expenditure.

External issues and dependence on Russia

Breaking economic ties with Russia completely will have enormous repercussions for the Belarusian economy. As its main trading partner, Russian products are essential in Belarusian value chains. Especially in the fuel and energy sectors we have seen that Russia uses its economic power by delaying or even blocking Russian exports to Ukraine. This is also a realistic assumption for Belarus in this scenario. In the short term these shortages will have a dramatic impact on the local economy and population, especially during the winter season. Switching energy suppliers is a very hard and expensive process and thus reliance on Russian energy will be a long-term issue for the Belarusian economy[21]. On the export market, Belarus would be directly impacted by higher tariffs, sanctions and social boycotts by the Russian population. As Belarus is not currently a WTO member, Russia enjoys substantial freedom to set tariffs for Belarusian imports without fearing WTO intervention. Thus, a significant volume of Belarusian exports would face tariffs much higher than MFN rates or even a complete blockage of exports similar to Ukraine in 2013 and 2014. In this regard, Russian sanitary service regulations for the food industry might play an important part as these would hit one of the few relatively competitive sectors in Belarus very hard, given that over 75 % of Belarusian animal and food product exports were destined for Russia in 2019. Furthermore, Russia could strategically target individual firms in Belarus that rely heavily on access to the Russian market and are important in terms of employment as well as tax revenues in Belarus. These tactics would imply even higher unemployment rates than those quoted in Scenario 2 and also increase the fiscal burden of the central government in Belarus.

With international trade being severely impacted, the supply of foreign currency to repay loans will become a major problem. Meanwhile, inflationary pressure due to higher energy prices will lead to a devaluation of the Belarusian rouble and bring about even further deterioration in its international competitiveness[22]. The Belarusian central bank would have to intervene considerably to stabilise the economy, which would require substantial (external) funds.

Additionally, we can expect a considerable influx of Belarusians who have previously been living in Russia. These returning citizens would face a severe recession with very high unemployment rates and few labour market opportunities. Besides social tension, this re-migration will increase the fiscal burden on central

[21] According to UN COMTRADE (2021), Ukraine still imported one-third of its fuels and energy from Russia in 2018.

[22] Based on a simple purchasing power parity theory of exchange rates.

government and in the medium term might even lead to a brain drain towards Western countries, which would impede still further any positive economic developments in Belarus.

4 Assessing the assistance needs of democratic Belarus

4.1 Possible donors and funders of the transition

By virtue of its geographical position, the EU cannot avoid being the prime mover in assisting any transition in Belarus. But beyond mere geography, there are many other reasons why the EU will necessarily be involved, including security implications for the EU resulting from transition failure, as typified in the weaponisation of migrants at the Polish-Belarusian border in November 2021. Additionally, the example of Ukraine from 2014 to 2015 shows the importance of swift and concerted assistance from the European side in order to foster growth, liberalisation and European values. Paradoxically, the experience of Ukraine also offers best practices on what works and what should be undertaken in regard to instruments of assistance and where assistance may be less practical.

Given the potential size of transition needs (see below), it is also a truism that the EU will need to coordinate its response both internally and with a plethora of international donors, many of whom have already been involved in Belarus since the 1990s and thus have their own expertise in the country. Perhaps *primus inter pares* in these organisations is the World Bank, which has supported lending deals totalling almost EUR 1.8 billion in the years since Belarus joined the Bank in 1992 and has a current pipeline of approximately EUR 832 million. The Bank already has many sectoral projects lined up in the areas of healthcare, social services and the environment, but these have all been placed on hold (unable to gain internal approval) since the events of August 2020. In talks conducted during November 2021, World Bank Group officials confirmed the need for these projects based on a strictly technocratic assessment (encapsulated in the Bank's Systematic Country Diagnostic published in 2018). These officials noted that the Bank had a commitment to undertake these projects no matter who was in charge politically. Indeed, they stated that the only difference from their point of view was that a democratic transition would probably quicken the pace of reforms, requiring the Bank's assistance to be scaled up still further. However, officials also counselled that the pace of reform across all areas was not necessarily predictable and much would be determined by the exact shape of the transition path. In any event, the Bank remains ready to help in applying technical solutions to some of the pressing problems that Belarus faces.

In addition to the World Bank, another member of the World Bank Group, the IFC, has also been working extensively in Belarus across several areas, mainly connected with business environment reform, including: taxation and business registration; access to finance; and other aspects of private sector development. Investing a further EUR 839 million since 1992, unlike the International Bank for Reconstruction and Development (IBRD), the IFC has been working in Belarus continually throughout the past year and a half, despite turbulent times, focusing on competition policy and access to finance (including collateral policy). Given the IFC's close cooperation with the World Bank on private sector development and its experience in working with the EU on joint projects in this sphere, it may also be able to play a (smaller) role in helping to push for effective reforms not just in the private sector reforms, but especially in the area of SOEs.

The World Bank's sister organisation, the International Monetary Fund (IMF), also has a potentially large role to play in Belarus. According to the DG for Economic and Financial Affairs, Belarus approached the IMF in spring 2020 for loans to fight the COVID-19 pandemic's economic impact, but at that time could not reach agreement with the Fund. The same had already happened in 2011, when Belarus requested a EUR 2.65 billion loan from the IMF. The conditionality of IMF loans is a red line for the current administration (politically the President would not acquiesce to the IMF's conditions), but this might become less of an issue during or after a democratic transition. In late 2021 the IMF allocated Special Drawing Rights to fight the impact of COVID-19 on Belarus. These unconditional reserve assets are worth about EUR 890 million, which will provide much needed liquidity for the Belarusian economy.

While these donors can bring to bear most potential funding in support of a Belarusian transition, other important organisations may also be involved. The EBRD has a similar-sized portfolio to the IFC in Belarus (currently approximately EUR 930 million) and a similar focus, albeit with more emphasis on the financial sector (four current projects are with the banking sector and two additional projects are on their way to approval). Working with the IMF, the EBRD may be a good candidate for leading in financial sector reforms, as well as municipal infrastructure and environmental assistance. The EIB has worked with Belarus since 2018, focusing on loans to support the country's SMEs, infrastructure projects and the financial sector. It has a loan portfolio of about EUR 290 million, yet loans of EUR 550 million have been earmarked for Belarus since 2017. The EBRD and EIB stopped activity in Belarus since the country's presidential elections and will continue to maintain the same stance in line with EU policy.

The US Agency for International Development (USAID) has a wealth of knowledge garnered in the transition of economies from the former Soviet Union (including, most recently, Ukraine and Moldova) which can be brought to bear in Belarus. The USAID portfolio has been concentrated in civil society development and vulnerable populations, providing vital on the ground knowledge of these crucial areas. However, this expertise is counterbalanced by the reality that Belarus makes up a miniscule fraction of USAID programming in the region (Belarus ranks 20th in Europe and Eurasia in terms of spending). Moreover, total USAID commitments since 2001 have been a mere 9 % of what the EU has committed in technical assistance, namely EUR 8.61 million versus approximately EUR 97 million. Despite this, there may be a role for USAID in the transition, especially in leveraging EU assistance in poverty reduction and social welfare reform[23].

4.2 Focus sectors

This overview of potential funders has begun to highlight some of the focus sectors for EU assistance in the Belarusian transition.

4.2.1 Transport infrastructure

Belarus is a transit country and has a developed transport infrastructure. Its territory is crossed by two trans-European transport corridors, number II (West – East) and number IX (North – South) with branch IXB. At the same time, Belarus is ranked only at 103rd in the World Bank logistics performance index (World Bank, 2018).

Pipeline (42.1 %) and railway (34.4 %) transport occupy the main share in cargo turnover, while road transport accounts for another 23.4 % by 2020, according to Belstat. The public road network's density is 418 km/1 000 km^2 of territory and is one of the highest among countries in the Commonwealth of Independent States. Historically transit highways received better maintenance while local roads are commonly underinvested. Road and railways networks had already been developed to their fullest extent in Soviet times so only the issues of maintenance, repair and reconstruction remain on the agenda. There is some scope for further development of inland waterways and airports in various regions.

In consolidated budget expenditures for Belarus' economy, transport accounts for EUR 310.3 million (15.4 %). According to the national budget for 2020, the road fund amounts to EUR 222.2 million, of which about 44 % are tolls and about 49 % are fees along with permits.

The limited budget and credit financing that has taken place in recent years means that significant parts of the roads are operated with past repair deadlines. About 5 000 kilometres, almost a third of national-class roads, have an evenness index[24] that does not correspond to the standard. More than 30 % of bridges and

[23] This on-the-ground knowledge is expected to persist even though the Government of Belarus has ordered USAID to close its operations in the country as of 20 November 2021.

[24] The evenness index or coefficient explains the technical characteristics of a road such as longitudinal evenness of the road surface. Road evenness decreases with time due to natural factors and heavy use.

overpasses do not meet regulatory requirements for carrying capacity and some of them need urgent reconstruction or major repairs. Currently, about 78 % of republican highways are operated with overdue repair deadlines and this leads to an irreversible process of road surfaces being gradually destroyed.

According to the National Infrastructure Strategy for 2017-2030 (IICC, 2016), the main budget share is occupied by projects in the social sphere (52 %), transport (19 %), housing and communal services (12 %) and energy (5 %). The total need for investments in the main areas of infrastructure for 2021-2030 is estimated at EUR 44.6 billion, of which EUR 15.4 billion is dedicated to transport infrastructure.

Belarus' government wants to continue attracting funds from international financial organisations for the modernisation of highway M-1/E 30 Brest (Kozlovichi) – Minsk – border of the Russian Federation. The estimated cost is EUR 420 million. Transport infrastructure would not seem to present a pressing problem for a democratic Belarusian government except the issue of deteriorating bridges and overpasses. The situation regarding infrastructure operating companies will potentially raise more serious concerns. National infrastructure giant Belarusian Railways (the biggest employer in the country) should undergo a painful process of unbundling, restructuring and partial privatisation. The road construction and repair sector should also be privatised and switched to performance-based contracting. Both markets should be open for international competition (Akulova et al., 2004-2011). All this will require technical assistance from the EU and IFIs.

4.2.2 Environment

Belarus is included in Annex I to the Kyoto Protocol of the United Nations Framework Convention on Climate Change, meaning that it has agreed to reduce its emissions (including and in particular carbon dioxide) to levels below those seen in Belarus during 1990. Under this pledge, the government has targeted reducing greenhouse gas (GHG) emissions by 8 % from the 1990 level during the 2008-2012 commitment period of the Protocol, with the government then decreeing a further 12 % reduction for the second period (2013-2020). At the time of writing, this goal of a 28 % reduction has been achieved. The new unconditional target is to reduce greenhouse gas emissions by 2030 still further by at least 35 % of the 1990 emissions, taking into account the Land Use, Land-Use Change and Forestry (LULUCF) sectors. A new conditional goal is to reduce greenhouse gas emissions by at least 40 % of the 1990 emissions by 2030, considering the LULUCF sector, if international financial assistance is available to implement the best available technologies to achieve GHG emission reductions (as stated in Nationally Determined Contribution (NDC)).

Transforming the updated NDC into tangible actions that lead to long-term low emission and climate-resilient development is quite a challenge. To meet this, Belarus needs sustained financial, technical support and capacity building to assist in preparing, implementing and reporting national actions against NDC targets (Kampel, Gassan-Zade, 2021). Consolidated public expenditures on environmental protection amounted to BYN 1 billion in 2020 (approximately EUR 341 million, according to Belstat (2021e)) and this amount is obviously too little to meet Belarus' commitments, taking into consideration the 20 % share of measures countering air pollution included in this overall number. In fact, as noted below, according to the National Energy Efficiency Action Plan, a full set of measures to achieve planned levels of GHG emissions by 2030 would cost EUR 14.7 billion (EBRD, 2020). The Plan implies that at least 20 % of this amount is absent and furthermore financing of Sustainable Urban Mobility Plans (23 % of the total amount) seems unrealistic.

Moreover, moving forward will require building up a system of good environmental governance including: (i) institution development (Ministry of Natural Resources and Environment Protection and its subsidiaries, its connection to other governmental organisations); (ii) introduction of the new standards and processes;

and (iii) development of human resources. Evidence from other countries in the region suggests that to build up an entirely new system would take 3-5 years and cost approximately EUR 17.7-26.5 million[25].

Belarus took part in EU projects for Eastern Partnership countries such as EU4Climate and EU4Environment as well as dozens of other environmental projects supported by external actors. Historically, external support targeted fighting the consequences of the Chernobyl disaster although it has not been the major focus of this support for some time. Topics such as waste management, cross border pollution, biodiversity, soil erosion and many others are on the agenda for cooperation between Belarus and the rest of the world, a situation which is likely to persist into the future. Taking into account the scarceness of internal sources to finance environmental projects after the democratic transition, there is certainly scope for the EU and other donors to step in. With the moderate absorption capacity of internal players (governmental organisations, local authorities and non-governmental organisations), needs for foreign aid will hardly reach EUR 88 million per year.

Probably the biggest concern for Belarus' future environmental policy is the disputed case of the Astravets nuclear power plant (NPP)[26]. Currently regarded as a 'black box,' the NPP will become a serious issue for any democratic government. It will inevitably have to: (i) build up a system of international monitoring and control; (ii) perform new project works, making repairs and alterations; (iii) develop a new system of electric consumption (addressed above); and (4) create a system of radioactive waste management. It is difficult to assess the cost of such measures, but given the NPP costs of EUR 5.3 billion, one can imagine that further developments could soak up several billions of euros.

Another vague issue for a future Belarus is the European Green Deal. The European Commission has proposed a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage (Eicke et al., 2021) in order to 'ensure that the price of imports reflects more accurately their carbon content' (European Commission, 2020). The Carbon Border Adjustment Mechanism introduced in 2021 and coming to force in 2026 will inevitably influence some Belarusian imports into the EU, such as fertilisers and metals. There are no accurate estimates of possible losses, although Tochitskaya and Shershunovisc (2021) suggest that they may amount to EUR 27.4 - 42.4 million per year. Should this happen, Belarus will need external support in the green transition process (expertise, technical assistance, hard investment), plus a transition period. Besides the EU providing political support, it could also provide grants to finance soft measures and assist with cheap loans for hard investment.

4.2.3 Energy efficiency

Belarus is heavily dependent on imported energy and in this sense one of the most import-dependent countries globally, with only 15 % of domestic demand met by internal sources in 2018 (IEA, 2021). Nearly all electricity generation came from natural gas in 2018 (97 %, or 39 terawatt hours), but this is projected to change with the commissioning of two new nuclear generators at the Astravets NPP. In 2020, final energy consumption totalled 27 metric tons of oil equivalent (toe), 60 % of which is attributed to natural gas and 30 % to crude oil. Another 10 % came from renewable energy sources (biomass mostly) and peat. Renewable energy sources make up just 7.1 % of total consumption, lagging behind the average EU level of 20 %. Unlike other countries in the region, Belarus does not use coal for heating or electricity generation in either its industrial or household sectors. In 2020, the largest final energy consumer in the country was the industrial sector, accounting for 33.3 %. Households formed the second largest, with over 28.3 % of the total final consumption. The remaining consumption comprised: transport sector (21.4 %), service sector (9.6 %) and agriculture (6.4 %) (Belstat 2021b). Belarus' primary energy intensity is 0.15 toe/1000 USD

[25] Own estimations based on an interview with Belarusian civil society.

[26] Civil society organisations, as well as the Government of Lithuania, strongly oppose the construction of the NPP and question its safety. As a response, Lithuania and Latvia have prohibited purchasing electricity from this NPP.

(2015), far above the EU average (0.076 toe/1000 USD), but significantly less than intensities in neighbouring Russia and Ukraine.

Increasing energy independence and energy efficiency has been on the agenda of the county's authorities for decades and a key tenet of international support, *inter alia* from the EBRD and EIB. On the supply side, Belarus moved towards decreasing dependency on Russian gas (construction of the NPP and electricity distribution network) and increased use of renewable energy systems, such as: biomass (woodchips); biofuels and biogas (both in agricultural and waste management sectors); as well as solar and wind power. The list of measures on the demand side includes: introduction of new energy efficiency standards for new and reconstructed buildings; thermal rehabilitation of old properties (state support is available); development and implementation of sustainable urban mobility plans; re-equipping central heating systems with electric boilers; and other similar initiatives. Some of these measures are included in the State Programme on Energy Efficiency and Energy Savings 2021-2025 (total costs of BYN 4.2 billion, or approximately EUR 1.43 billion). Furthermore, in 2018-2020 the National Energy Efficiency Action Plan, obligatory in the EU, was developed for Belarus by the EBRD, as a presidential administration request (EBRD, 2020). This comprehensive document offers a full set of measures across all sectors, providing exact funding assessments. Implementation (by 2030) will require some BYN 43 billion (approximately EUR 14.7 billion), mostly coming from public funds and the industrial sector. The plan envisages elimination of energy cross-subsidies, currently benefiting the country's entire population, and introduction of direct support to around 4 % of the poorest households (BYN 214 million, or EUR 73 million, over a 10-year period). As energy prices are unlikely to remain at their current levels after democratic transition, the need for support would increase.

IFIs and other international organisations can be expected to play an increasing role in Belarus' energy projects. The EBRD, EIB, World Bank, United Nations Development Programme and the Global Environment Facility have already been supporting a number of initiatives and projects in energy saving and renewables with total costs over EUR 440 million.

4.2.4 Information Technology

IT has been a prominent and quickly developing branch of the national economy, with 1.85 % share in total employment and 30.5 % of services exports in 2020 (Belstat, 2021f) due to: (i) preferential treatment from the state; (ii) high value human capital, thanks to strong traditions in technical education; and (iii) ability of emerging IT entrepreneurs to build up a sustainable ecosystem. Repression that followed the 2020 presidential elections and accompanying massive protests was targeted largely at IT workers and the sector itself, ruining all three pillars: taxes increased; employees were relocated abroad (at least 15 % according to Fillippova (2021) and other sources); along with creative hubs and start-up accelerators being closed or moving westwards. There is a strong belief that after a democratic transition in Belarus the IT sector will revive without any external support, but there needs to be an emphasis on creating the conditions for stability. According to the EBRD, the IT sector will be a 'pillar of future growth' and needs to be supported, not with loans or grants, but with an effective and open business environment.

4.2.5 Support for private entrepreneurship

However, issues surrounding the IT sector are not specific to information technology, but also apply to overall private sector development. Many international actors have been supporting private sector development in Belarus including the EU, World Bank, EIB, EBRD and USAID, to name just the biggest donors. For instance, the EU4Business project portfolio in Belarus included 20 projects in 2020 with annual allocations of EUR 53 million to improve the business environment, business development services and access to finance. The biggest investor is the EBRD with EUR 930 million in 67 active projects (60 % in the private sector).

So far efforts from the EU and IFIs have been concentrated on business acceleration and private enterprises' access to still restricted and expensive finance. This reflects the aspirations of Belarus' entrepreneurial class. According to the Global Entrepreneurship Monitor Report (GEM Belarus, 2019/2020), the first and largest obstacle to starting a new business is lack of finance. The second comes from a 'disabling business environment', with numerous research studies finding that private players' access to different types of production factors is still restricted. Compared to SOEs, they are faced with worse access to land, materials (especially in food processing and wood industry) and domestic markets. Lack of privatisation and preserving excessive employment limit access to brownfields and the labour force at equilibrium prices. Moreover, compliance with many technical regulations in the spheres of product standardisation, fire protection, as well as health and safety is impossible without breaking existing rules. Entrepreneurial activity often results in criminal investigations and actual prison time, even for publicly known figures.

Despite harsh conditions, the Belarusian private sector has miraculously developed into a remarkable 50 % of the economy. Its past performance certainly provides confidence in this sector's ability to continue its rapid development in the event of market reforms, privatisation as well as the creation of a proper regulatory environment and institutional framework. This process can be sustained by the West not only by providing technical assistance for the above-mentioned measures, but also by opening its markets to Belarusian companies. For instance, the majority of Belarusian circular labour migrants in the EU are employed in construction and transportation, while companies' access to the EU's single market is seriously restricted (Babicki, 2020). Notably, 2.5 times more Belarusian truck drivers are employed abroad than domestically. According to projections, exports in international freight transportation by road could be increased from the current EUR 1.32 billion (in 2019) to EUR 4.5-5.3 billion by 2025, if conditions such as free access to the EU market and lower leasing interest rates are met (Babicki, 2020). Experts argue that the EU could unilaterally liberalise trade in services with Belarus even before democratic transition, since such trade is driven entirely by private companies (Naurodski, 2021).

4.3 Estimates of assistance size

In this section, we compute how much assistance is needed according to our simulations for the three different scenarios, based on the model specifications noted above. The external assistance has three main components. First, expenditures required to provide technical assistance to Belarus during and after democratic transition. Second, external private finance (loans and other support) that contribute to the economic recovery and development of Belarus. These two components are largely independent of the immediate economic development of Belarus. The amount of this assistance is based on previous experience of transition economies such as Poland or the Baltic states. The third component is the most important and relevant, as it directly relates to the three different scenarios.

In any scenario, democratic transition will be associated with a major economic transition that will impact the industry structure and labour markets. Within our simulations we obtain changes in the government budget, in other words how government expenditure and income would change during the transition. To ensure a functioning government any additional budget deficit needs to be financed with (external) loans. Moreover, Belarus depends on Russian subsidies that in different scenarios are likely to diminish or even disappear altogether. These subsidies must also be replaced using external financing and then phased out. If transition leads to significant changes in the current account and hence pressure on the local currency, external funding is required to re-establish stability[27]. As (externally) financed government spending can be used to stabilise the current account, we subtract the additional government deficit from the current account stabilisation funds. Finally, the recession and structural change initiated by a democratic transition

[27] The extent to which current account stabilisation is needed again depends on different scenarios. We do not include the replacement of Russian energy subsidies into the current account stabilisation funds as these are financing imports and hence do not have any additional stabilisation effect.

will have a great impact on labour markets. If unemployment exceeds 4 %, excess unemployment benefits also need to be financed using (external) loans. When calculating the total value of assistance required, we consider all three components and total financial needs for the years 2022 to 2025.

4.3.1 Scenario 1 – Restrained Russia

This scenario is the most favourable in economic terms. Belarus stays well integrated within its international environment, with Russia remaining an important partner. The external and fiscal positions in this scenario are close to being balanced, which implies a limited need for external financial support. To what extent Russian energy subsidies need to be internally financed is a crucial issue. Abrupt adjustments of energy prices will bring inflationary pressure and declining international competitiveness. Experts estimate that Russia currently supports Belarus with EUR 1.3 to 1.8 billion annually. Given a positive growth rate and rather low level of central government debt, declining subsidies could be compensated for internally. Belarus would rely on only small amounts of (additional) external finance to roll over public debt maturities and reduce the costs of borrowing. This can be achieved via loans through the IMF and other IFIs. Additionally, the EU could provide better access to financial markets and technical assistance in this regard. While public debt seems to be a minor issue, private debt is significant, especially for SOEs. These would require restructuring, with additional financial resources through direct investment and privatisation. Some could be financed privately and others by donors. Here the EU would play a significant role not only in terms of promoting investment opportunities, but also for supplying technical assistance. Specifically, an important technical project would be presented by the creation of domestic credit markets, thereby diminishing the reliance on USD loans from the private sector.

Table 11 - Technical assistance and financial needs

Assistance	In EUR
Technical assistance to Employment Service	1 600 000
Regional development	4 430 000
Consulting for SOE reforms (audit, strategic consulting, preparing for IPO)	2 300 000
General management courses for SOE managers	3 540 000

Source: Authors' own calculations.

For central government, we estimate the budget financing needs to be EUR 1 billion between 2022 and 2025. Yet, with a positive growth rate, functioning labour markets and access to international capital markets, Belarus should be able to finance these budget needs on its own.

The democratic transition will be accompanied by building autochthonous economic institutions for a free-market economy and the associated structural challenges. In this regard SOEs will be a major topic. Any economic reform and structural change will need to include SOEs and hence create stress on the labour market. In this scenario unemployment rates are forecasted to stay below 4 % and thus at a level that is manageable for Belarus' central government without external support. Yet, some technical assistance during this transformation process is required. Table 11 above shows the technical assistance needed and its associated costs, totalling EUR 11.9 million. Additionally, reforms in the VET system would also be necessary for a smooth transition as stated by World Bank experts. We estimate that such a programme would cost approximately EUR 90 million.

Table 12. Belarusian financial needs for Scenario 1 between 2022 and 2025

Item	Million EUR
Finance of budget deficit	1 060
Compensation for Russian energy subsidies	2 000
VET system	90
TOTAL	3 150

Source: Authors' own calculations.

In this scenario, direct financial needs are relatively low and most of the support would be in terms of investment opportunities, technical assistance and access to financial markets. We estimate that the overall financial requirement in this scenario would be around EUR 3.15 billion. Table 12 provides an overview.

As a further part of this scenario, Belarus would be able to bear most of the financial burden on its own, so long as it has access to international capital markets. Donors would support Belarus mainly by providing technical assistance and financing only critical portions of the budget deficit (including weaning the country off energy subsidies). We also assume that growth-promoting (private) investments in the Belarusian economy, ranging from EUR 880 million to EUR 1.275 billion per year between 2022 and 2025, provide additional support.

4.3.2 Scenario 2 – Critical Russia

In this second scenario, Russia's critical reaction towards Belarus' democratic transition marks a more complex economic development. Specifically, Russia triggers a significant drop in Belarusian exports and a rise in energy costs due to all energy subsidies being terminated in 2022. These shocks lead to a short-lived recession and a persistent increase in unemployment. The recession also causes a current account deficit and pressure on the real exchange rate. We assume that the central bank will support the Belarusian rouble to avoid massive financial turmoil. All this implies a substantial need for external finance to stabilise Belarus' economy during the transition.

This scenario is the most complex in terms of support goals. The recession expected under this scenario is severe, but manageable. It rationalises financial support to smooth the recession and prevent financial turmoil. Technically, the initial purpose of this support will be to finance the current account deficit. Furthermore, a fiscal deficit will require financing. However, both these requirements may be combined, as the funds for fiscal support automatically cover part of the current account deficit.

For any financial support plan to be successful, substantial injections of funds must be applied. Although a rapid dissolution of the present Russian relationship is likely to increase the speed of policy reforms, it will take time for Belarusian producers to gain international competitiveness. This would imply a request for prolonged financing in terms of balance of payments support. While direct financial support is crucial, it does not guarantee successful economic recovery. Persistent macroeconomic and financial bottlenecks can still trigger financial turmoil.

Taking all this into consideration, we believe that direct financial support for macroeconomic purposes is the most favourable and promising policy choice, especially as extensive depreciation of the Belarusian rouble could trigger a private debt crisis. However, financial macroeconomic support should be limited in time (not more than three years), long enough for stabilisation to have been achieved. The experience gained through examples of successful macroeconomic stabilisation in the early 1990s showed that foreign aid helped to create a virtuous cycle for countries which were already reforming quickly. However, for slower-moving countries, foreign aid over longer periods merely delayed the ability of those countries to achieve their own stability (Fischer and Sahay, 2000). Furthermore, to ensure that Belarus' absorptive capacity is not overwhelmed (and to provide an incentive for further reforms), any assistance should be divided into tranches and conditioned by criteria measuring the progress in enhancing producers' competitiveness and economic reforms.

Macroeconomic support will be the core priority over the medium-term period (assumed here to be over three calendar years, as in the previous scenario). The total amount of macroeconomic support we assess at around EUR 8.9 billion for the entire time frame. This figure comprises the sum of current account deficits in the first three years after democratic transition and the period within which this deficit is likely to be maintained at a relatively high level. For the same period, we assess budget financing needs to be about EUR 5 billion. However, this fully intersects with the current account deficit needs, meaning that the finance of EUR 5 billion for fiscal purposes is actually part of EUR 8.9 billion for balance of payments stabilisation. This intersection of financing purposes enables more room for combining support instruments. The sum of EUR 8.9 billion may be split among the IMF's Stand-By Arrangement and/or Extended Fund Facility mechanisms, the EU's Macro-Finance Support mechanism and the approved special plan for democratic Belarus (worth EUR 3 billion).

Alongside the pillar of macroeconomic support, instruments for enhancing productivity and invigorating growth are also crucial, for which mechanisms of developing investment opportunities form the priority. The funds obtained through this mechanism may serve simultaneously to finance current imbalances and enhance growth potential; thus, they may be subtracted from the total amount of macroeconomic needs. Special emphasis should also be put on domestic debt markets, which are dominated by USD loans. During the period of macroeconomic stabilisation, measures restructuring private debt markets should be contemplated. In the medium term this will provide more flexibility in terms of monetary policies and again international donors could provide technical assistance in this regard.

We anticipate that the macroeconomic stabilisation track should be supplanted by exclusively market-oriented policies, with a special emphasis on investment opportunities and market access (financial, commodities and services), thereby diminishing the need for financial assistance by international donors.

Table 13 - Belarusian financial needs for Scenario 2 between 2022 and 2025

Item	Million EUR
Current account stabilisation	3 900
Finance of budget deficit	5 000
Compensation for Russian energy subsidies	4 000
VET system	90
Unemployment support	388
TOTAL	13 378

Source: Authors' own calculations.

Furthermore, during the initial democratic transition period, all instruments and mechanisms listed in Scenario 1 can co-exist with the macroeconomic support track; we assume that the technical assistance for regional development is increasing to EUR 6.7 million. Additionally, for VET reform Belarus requires support to deal with excess unemployment, in other words coverage for unemployment benefits above the 4 % threshold. As the SOEs reforms in this scenario and the transition to a market economy occur during an economic downturn, unemployment rates are estimated to be considerably higher than in the first scenario. Moreover, Russian sanctions might specifically target firms that are important in terms of employment for the Belarusian economy. As stated earlier, the Belarusian social security system is not equipped to maintain unemployment rates above 4 % and thus external finance would be required. We estimate this at about EUR 288 million until 2025.

Table 13 above provides an overview of Belarus' total financial needs during the first three years of democratic transition. In contrast to the first scenario, Belarus will not be able to finance these measures on its own, but would need the support from international donors, such as the EU, IMF, World Bank and others. As in the first scenario, we assume growth-promoting (private) investments ranging from EUR 1 billion to EUR 1.275 billion per year between 2022 and 2025.

4.3.3 Scenario 3 – Openly Hostile Russia

This scenario assumes the most unfavourable outcomes, with the Belarusian economy experiencing a 'hard landing', followed by a somewhat inevitable fully-fledged financial crisis. Moreover, huge macroeconomic disparity will result, with the fiscal deficit and current account imbalances becoming persistent.

Accordingly, contradictions in regard to the logic of support emphasised for Scenario 2 expand enormously. Hence, again two possible lines of argumentation arise. Firstly, the overriding purpose might be to prevent a hard landing and accompanying financial crises. However, following this logic, an openly hostile Russia will lead to substantially more funds being needed for stabilisation, around EUR 25.965 billion for the four years of transformation (see Table 14 below). Furthermore, while the perspectives of stabilisation herewith are poor and imbalances are persistent, this design of support is likely merely to delay or postpone tragic adjustments. Finally, a specific political issue arises, as a portion of support will be used for public external debt repayments. Since Russia is the main creditor and simultaneously the originator of this scenario, using EU funds to repay Russia's debt could potentially be politically explosive.

The second line of argumentation assumes treating a hard landing and financial turmoil as predetermined outcomes. Hence, the policy objective might be to reshape this situation as a purification procedure for the economy rather than an economic disaster. Reinvigorating growth in a renewed economy emerging from prolonged macroeconomic weaknesses must be a policy priority in this case.

Table 14 - Belarusian financial needs for Scenario 3 avoiding a hard landing

Item	Million EUR
Current account stabilisation	17 800
Finance of budget deficit	6 000
Compensation for Russian energy subsidies	1 775
VET system	90
Unemployment support	300
TOTAL	25 965

Source: Authors' own calculations.

We assume that, for this scenario, the second line of argumentation (i.e., post-hard landing) is much more convincing. This conclusion leads to important implications regarding the design of policy support and its size (Table 15). There is no need to spend enormous funds trying to save an economic model that can hardly be saved. Support should be focused on enhancing productivity gains and growth throughout the whole period considered. Moreover, macroeconomic financial support should mainly be employed when the economy has begun to show signs of recovery. Before this point, only some targeted support dealing with social purposes (poverty reduction, enhancing employment, etc.) seems worthwhile.

Hence, the immediate system of support for the year 2022 is to be based on investment opportunities, growth-promoting projects run by specialised institutions, technical assistance and budget support, as well as socially critical bridge support for humanitarian purposes. In terms of investment opportunities and growth-promoting tools, the approach of 'the higher, the better' seems reasonable, as there is no methodology which can assess its optimal value to the transition. However, we can argue that an annual amount of EUR 0.9 billion for each of these tools seems to be a reasonable minimum; in other words, total support of EUR 2.7 billion is needed in 2022 or during the first year of transition.

When the economy starts to recover after this hard landing, additional packages of support may be activated for enhancing growth. Given that Belarus' fiscal position will restrict its reform agenda, we believe that donors should focus on budgetary support measures[28]. In the early stages of recovery, a consolidated deficit is likely to amount to around EUR 2.2 billion annually. The annual support of 70 % - 80 % of this sum, that is about EUR 1.8 billion annually over a two-to-three-year period, may be an effective instrument to support recovery.

However, budgetary support for social purposes should not aim at financing fiscal deficit. Hence, it should not rely upon the corresponding assessments. We should therefore separate out this support and marry it to expenses on particular social programmes. Here, the fiscal support of unemployment benefits for rates above 4 % will be the most important factor, with EUR 400 million projected during the first three years. In terms of technical assistance, only the scale, but not the scope, of activities may change, with regional development becoming more important. The amount of funds needed for technical assistance is roughly equal to those mentioned in Scenarios 1 and 2.

Table 15. Belarusian financial needs for Scenario 3 after a hard landing

Item	Million EUR
Immediate support (2022 or year 1)	2 700
Budget support	5 234
VET system	90
Unemployment support	400
TOTAL	8 424

Source: Authors' own calculations. Note that the budget support funds only become relevant once the Belarusian economy starts to recover after the hard landing.

[28] A severe recession will have an immediate impact on tax revenues: profits of firms will be lower, meaning less intake from corporate taxation, while a higher unemployment rate also implies lower labour tax revenues and declining consumption (and concomitant lower value added tax revenues). Lower imports will lead to lower tariff revenues, meaning a severe contraction across the board in government revenue. In terms of expenditures, not only will unemployment benefits need to be paid (which we account for separately) but also other stabilisation measures will need to be financed. Reducing all government spending during a major recession can be somewhat destabilising in the short-term (see Orzag and Stiglitz, 2001) and hence (costly) fiscal policy could be carefully used in these circumstances. This reality underpins the estimates of budget support shown above.

5 Conclusion and policy recommendations

This study has examined the potential transformation of Belarus from an authoritarian, state-driven economy to a liberal free-market economy based on democracy. The reality of the country's dependence on Russia makes the Russian attitude to any such transition a key determinant of its path (and perhaps its success), as well as a crucial factor in shifting the potential cost of transition. Taking the various potential reactions of Russia into account, we have quantified the possible costs of Belarus' transition as laying between EUR 3.2 billion and EUR 25.965 billion for the first four years, depending upon the Russian reaction and its effect on the Belarusian economy. Obviously, the harsher the reaction is, the greater the expected expenditure cost will be, along with a highly shortened time frame in which to implement policies.

The reality of such a burden, the many inefficiencies in the Belarusian economy and offsetting somewhat these issues, together with the opportunities for Belarus under a free market system, mean that reforms must be undertaken in a concerted and speedy manner, while political will exists and support is high. In the first instance, as with other countries in Central and Eastern Europe, macroeconomic stabilisation will need to be pursued immediately and it is here that the EU and other international donors can help, by providing guarantees and backing as Belarus undergoes its necessary consolidation in the early stages of its transition.

Much as in the transformation of Poland, which was able to take place via the effort of international creditors, having the EU ready to provide aid may generate the space and confidence for Belarus to implement tough policies without fear of a systemic collapse. A similar lesson was learned in the wake of the 2014-2015 Maidan Revolution of Dignity in Ukraine, one which is perhaps more relevant for Belarus. Facing Russian hostility and territorial incursions (as well as the annexation of Ukrainian territory in Crimea), the IMF was able to arrange, in just three weeks, a loan package of EUR 16 billion to stave off default and unlock additional lending from the EU and the USA. The EU can assist during this critical time by providing explicit support at the IMF for any transitional government, as well as playing a leading role in donor coordination. In particular, some concrete actions could include:

- Redirecting funds from existing EU instruments, including those predicated on technical assistance (such as directed from the DG for Neighbourhood and Enlargement Negotiations and those funded by the 'International Partnerships' office), for emergency assistance. Planning for a concerted technical assistance programme, including stand-alone activities overseen by the EU and affiliated organs (including the EIB), can dovetail with multi-donor initiatives such as those managed by the EBRD and the World Bank. More importantly, this programme can form a coherent and reinforcing role for reforms.

- Additionally, the EU can set up longer-term programmatic funding before Belarus transitions (based on this current document and World Bank analyses) in order to have it ready to go when the transition starts. This could be spread across DGs and institutions such as the EIB, but linked to budgetary processes within the Union to ensure that the various initiatives are included in the budgets of the various organs.

- Establishing a dedicated EU funding mechanism for Belarus to carve out a specific funding source for the transition (in recognition of the country's importance on the EU's borders). Most likely, this would be housed under the EU's existing Macro-Finance Assistance mechanism, but with a special allocation directed towards Belarus.

- If Russia appears to be openly hostile and/or the new Belarusian governance team wishes to exit the Eurasian Economic Union, the EU should already have a plan ready to fast-track a DCFTA with Belarus. The experience of Ukraine shows the necessity of being prepared for such an eventuality, and the sooner that a DCFTA is in place, the less hardship Belarus will suffer from the abrogation of its trade links with Russia and the EAEU. It is imperative that the Commission (and in particular DG Trade) undertake the legwork needed for understanding the impact of a DCFTA with Belarus on Member States and for the European Parliament to build the political consensus on the desirability of such a rapid agreement.

- Working with international actors such as the US Treasury Department and Member State Finance and Foreign Ministries to organise an international donor conference to collect pledges for necessary funding covering longer-term reconstruction, as was done successfully in the case of Kosovo and, in the early years of the war effort, in Afghanistan;
- In the case of Scenario 1, where Russia is not overtly hostile nor blocking the transition, there is also a (slight) possibility of involving Russian aid agencies in providing emergency funding for reform efforts. We are under no illusion that this is likely to be a feasible (or desired) path but involving Russia in good faith efforts to ensure the stability of Belarus during its transformation may also temper any Russian response.

While macroeconomic stabilisation must not last for a prolonged period (our scenarios assume a maximum of three years, which is very generous), the hurdle of stabilisation needs to be cleared so that the structural transformation can begin. Indeed, alongside the need for macroeconomic stabilisation and explicit backing from the EU in helping Belarus see its reforms through, the EU can also contribute to some of the specific technical and structural assistance needs within the country. First and foremost, there must be technical assistance (probably led by the World Bank but with ample opportunity for the EU to be involved) in rationalising the social welfare system in Belarus and helping to target social assistance to those who will be affected most by the transition[29]. This means a complete overhaul of the Soviet 'cradle to grave' state involvement together with a much more structured, efficient and precise form of social safety net. This will first and foremost focus on unemployment insurance and transition assistance, as will be required by the dire need to reform SOEs as part of any macroeconomic stabilisation in order to ease the pain of transition and keep up supporting reforms for those most affected. It will then radiate out into broader issues of social payments and insurance, focusing on the 'last resort' nature of social insurance mechanisms. The World Bank's technical analysis of the social welfare system would provide valuable input for this assistance and such an undertaking would help build momentum for other necessary reforms.

As noted in our recommendations, Belarus' external orientation will also be crucial, no matter which scenario is thrust upon the country (and the EU). If Belarus chooses to remain in the EAEU, there will be difficulties in transitioning towards more openness to the EU, based on the EAEU's common external tariff, and thus EU assistance can be utilised for harmonising Belarusian tariff schedules in a way that comports with both EAEU and EU requirements. In the second and third scenarios, if Belarus were to leave the EAEU, EU assistance will be absolutely required in both securing WTO accession (technical assistance for the process within Belarus) and in structuring a prefabricated trade deal along the lines of the DCFTA with Ukraine, market access remaining one of the most potent economic instruments at the EU's disposal. As with macroeconomic stabilisation, the plan for assistance in external relations and the trade sphere should be done in advance and thus be ready to go when/if Belarus transitions. Such a pre-designed plan will also help overcome the inevitable hurdles which will accompany any trade liberalisation from the EU's side, in particular the question of Belarusian agriculture.

We have also noted in the discussion on structural weaknesses the lack of property rights and rule of law in Belarus. While the extent of property rights protections will be decided by the Belarusian people themselves, the EU should offer advice that the maximum protection of these rights is preferable to any half-way measure; in the first instance, Poland's economic transformation was only possible because of a swift move to high levels of property rights, an approach which should be emulated (contrast this with

[29] The World Bank has been noted as the lead for the social sector due to its ongoing involvement in technical assistance in this field and its continued on-the-ground presence. As noted, there are ample opportunities for the EU to contribute, however, in a manner as it does via other multi-donor or IFI-managed funds.

Ukraine, which has only just begun to allow agricultural land sales). Lower property rights mean more opportunities for the state to encroach in commerce and multiplies exponentially the opportunities for corruption. In terms of concrete actions, the EU can take the lead on issues such as cadastral work and creation of a land registry, as well as providing legal assistance for the claims of restitution which may come about regarding Belarus' Soviet past. Working closely with the IFC, specific reforms to improve the business environment, including sunsetting regulations, performing a guillotine to existing laws and assisting with the development of regulatory impact analyses, can be implemented with the EU drawing on its experience from new Member States in these areas.

Finally, we have focused here on key short-term reforms which will be needed to set Belarus on the path to a market democracy. Many other initiatives will be crucial to building the market economy, including continuing structural reforms and a focus on the rule of law; maintenance of the business environment; environmental protection; and, of course, safeguarding nascent democratic institutions. The EU's experience in providing technical assistance for all of these areas, including the former EuropeAid bureaucracy and especially involving institutions such as the EIB, coupled with other international donors (such as EBRD, USAID and the IFC), can help to push Belarus further along in its economic development, laying the groundwork for sustainable and productive growth. These areas will become critical only over time and thus are placed lower in the priority chain than immediate assistance for macroeconomic stabilisation and critical structural needs. They still need to be considered as part of any overall relationship with a democratic Belarus. Along these lines, it is imperative that the EU plays a role in pushing for the sort of policy experimentation which prevailed in Central and Eastern Europe during the early 1990s, with an eye on creating the fundamental institutions of economic, as well as political, freedom. With a head start in terms of stabilisation and institutional change, the precise path can then be determined by the Belarusian people.

References

Abbott, P., & Wallace, C., 'Explaining economic and social transformations in Post-Soviet Russia, Ukraine and Belarus: The social quality approach', *European Societies*, Vol 12 No 5, 2010, pp. 653-674.

Acemoglu, D., et al., 'The rise of Europe: Atlantic trade, institutional change, and economic growth', *American Economic Review*, Vol 95 No 3, 2005, pp. 546-579.

Akhramovich, V., et al., Agri-Food Sector in Belarus: Trends, Policies, and Development Perspectives, AGRICIS TRADE Belarus Country Report, Research Centre of the Institute for Privatization and Management, 2015.

Akulova, M., et al., Global Entrepreneurship Monitor Report: GEM Belarus 2019/2020, International Finance Cooperation, 2020.

Akulova, M., et al., Belarus Infrastructure Monitoring (BIM), IPM Research Center, 2004-2011.

Ang, J., & Patalinghug, J. C., 'Property rights and economic growth: A dynamic GMM analysis', *Economics Bulletin*, Vol 41 No 3, 2021, pp. 1387-1398.

Arvis, J-F., et al., Connecting to Compete 2018. Trade Logistics in the Global Economy. The Logistics Performance Index and Its Indicators, World Bank Group, Washington DC, 2018.

Åslund, A., 'How sustainable is the Belarusian economy?', *Atlantic Council*, 13 October 2021.

Babicki, D., Non-IT Services Export from Belarus: status-quo and potential (in Russian), CASE Belarus analytical report, 2020.

Balmaceda, M. M., *Living the high life in Minsk: Russian energy rents, domestic populism and Belarus' impending crisis*, Central European University Press, Budapest, 2014.

Belstat (National Statistical Committee of the Republic of Belarus), National statistical indicators on digital economy development, 2021a.

Belstat (National Statistical Committee of the Republic of Belarus), Consolidated expenditures on environmental protection, 2021b.

Belstat (National Statistical Committee of the Republic of Belarus), Sectoral structure of final consumption of energy resources in 2015 and 2020, 2021c.

Belstat (National Statistical Committee of the Republic of Belarus), Input-Output Table System for 2019, Statistical Bulletins, 7 May 2021.

Belstat (National Statistical Committee of the Republic of Belarus). (2021). National Accounts of the Republic of Belarus, Statistical Compilations, 18 March 2021.

Bertelsmann Stuftung, BTI Country Report – Belarus, 2021.

Bornukova, K., et al., Commitment to equity for children: redistributive effects and efficiency of social assistance to households with children in Belarus, UNICEF, Mimeo, 2020.

Bornukova, K., et al., Poverty, Vulnerability, and Household Coping Strategies during the 2015-16 Recession in Belarus, World Bank Policy Research Working Paper, No 9003, 2019.

Bornukova, K., et al., Restructuring of Belarusian SOEs (in Russian), BEROC Policy Paper, No 100, 2000.

Bosse, G. & Vieira, A. V., Human rights in Belarus: The EU's role since 2016, European Parliament, 2018.

Brel, Y., The utilities and housing sector crisis in the Republic of Belarus, *Journal of Public Administration*, Vol 52 No 1, 2017, pp. 52-63.

Chatham House, What Economic Reforms does Belarus Need and How Can the West Help?, Russia and Eurasia Programme Belarus Taskforce Recommendations, Research Event, 23 June 2021.

Chubrik, A., Back to the Future: A Short Historical Note on the Belarusian Private Sector, discussion paper no. 2021/03, IPM Research Cente, 2021.

Chulitskaya, T. & Matonyte, I., Social security discourses in a non-democratic state: Belarus between Soviet paternalistic legacies and neo-liberal pressures, *Public Policy and Administration*, Vol 17 No 4, 2018, pp. 539-554.

Daneyko, P., et al., Restructuring of Belarusian SOEs (in Russian), Policy Paper No 100, BEROC, 2000.

Dawson, L., et al., Bogs, birds, and berries in Belarus: the governance and management dynamics of wetland restoration in a state-centric, top-down context, *Ecology and Society*, Vol 26 No 1, 2021.

Dobrinsky, R., et al., The Belarus Economy: The Challenges of Stalled Reforms, WIIW Research Report, No 413, 2016.

EBRD, Support For The Development Of A National Energy Efficiency Action Plan For Belarus, 2020.

Egger, P. H., et al., 'Indirect effects of trade shocks on Turkish local labor markets', *Regional Science and Urban Economics*, Vol 83 No C, 2020.

Eicke, L., et al., 'Pulling up the carbon ladder? Decarbonization, dependence and third-country risks from the European carbon border adjustment mechanism', *Energy Research & Social Science*, Vol 80, 2021.

Eurasian Development Bank, A Conclusion on the Application of the Republic of Belarus for the Financial Loan from the Eurasian Fund for Stabilization and Development (in Russian), 2016.

European Commission, Belarus Main Indicators, Country Factsheet, Directorate-General for Trade, 20 May 2021.

European Commission, Inception Impact Assessment: carbon border adjustment mechanism, 2020.

Eurostat, Structural business statistic overview, European Union, 2021a.

Eurostat, The European economy since the start of the millennium – a statistical portrait, European Union, 2021b.

Favaro, E. M., et al., Structural challenges for SOEs in Belarus: a case study of the machine building sector, World Bank Policy Research Working Paper, No 6010, 2012.

Fedotov, A., 'Reform of the Judicial System in the Tradition of 'Cosmetic Repairs'', *Белорусский ежегодник* (Belarusian Yearbook), Vol 1, 2014, pp. 46-54.

Fillippova, A., '"Families leave separately": how Belarusian IT-companies settle abroad', *Forbes*, 12 August 2021.

Fischer, S. & Sahay, R., The Transition Economies after Ten Years, Working Paper 7664, National Bureau of Economic Research, 2020.

Flavier, H., 'Land ownership in Belarus' *Revue d'Etudes comparatives Est-Ouest*, Vol 48 No 1-2, 2017, pp. 179-208.

Frye, T., Belarus and its implications for the study of transition economies: an introduction, *Eurasian Geography and Economics*, Vol 52 No 6, 2011, pp. 747-749.

Gløersen, E., et al., 'The role of environmental issues in the adoption processes of European Union macro-regional strategies', *Environmental Science & Policy*, Vol 97, 2019, pp. 58-66.

Government of Belarus, State Programme on Energy Efficiency and Energy Savings 2021-2025, 2021.

Guriev, S., 'The political economy of the Belarusian crisis', *Intereconomics*, Vol 55 No 5, 2020, pp. 274-275.

Gutbrod, H. & Movchan, V., Promoting Georgian exports of agro-food products to the EU – The role of volume, transport and logistics, Policy Briefing, German Economic Team, 2020.

Haerpfer, C., et al., World Values Survey: Round Seven - Country-Pooled Datafile, JD Systems Institute & WVSA Secretariat, 2020.

Hartwell, C. A. & Urban, M., 'Burning the Rechtsstaat: legal institutions and protection of the rule of law', *Journal of Institutional Economics*, Vol 17 No 1, 2021, pp. 105-131.

Hartwell, C. A., *Institutional barriers in the transition to market: examining performance and divergence in transition economies*, Palgrave Macmillan, Basingstoke, 2013.

Hartwell, C. A., Part of the Problem? The Eurasian Economic Union and Environmental Challenges in the Former Soviet Union, *Problems of Post-Communism*, 2021, pp. 1-13.

Hrechyshkina, O. & Samakhavets, M., 'Changing business environment in Belarus', *Journal of Geography, Politics and Society*, Vol 9 No 1, 2019, pp. 1-11.

Infrastructure Interagency Coordinating Council, National infrastructure strategy of the Republic of Belarus for 2017-2030 (in Russian), 2016.

International Energy Agency, Belarus energy profile, Country Report, 2021.

International Monetary Fund, Republic of Belarus: 2018 Article IV Consultation Staff Report, Country Report, No 19/9, 2019.

International Monetary Fund, Republic of Belarus: Selected Issues, *IMF Staff Country Reports*, Vol. 17 No 384, 2017.

Ivanova, Y. V., 'Belarus: Entrepreneurial activities in an unfriendly environment', *Journal of East-West Business*, Vol 10 No 4, 2005, pp. 29-54.

Kampel, E. & Gassan-Zade, O., NDC preparation and implementation in EaP countries - Comparative analysis of the first and the updated NDCs in Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine, Technical document, EU/UNDP EU4Climate Project, 2021.

Kłysiński, K., Illusions of power and stark realities: The second year of the economic crisis in Belarus, OSW Commentary, Number 233, 2017.

Kornai, J., 'Transformational recession: the main causes', *Journal of Comparative Economics*, Vol 19 No 1, 1994, pp. 39-63.

Korsunskaya, D., 'Russia will send Belarus first $1 billion of loan by year's end', *Reuters*, 16 September 2020.

Kruk, D. & Haiduk, K., The Outcome of Directed Lending in Belarus: Mitigating Recession or Dampening Long-Run Growth? EERC Working Paper, No 13/05e, 2013.

Kulesa, A. & Kaźmierkiewicz, P. (eds.), In Search of New Opportunities. Circular Migration Between Belarus and Poland, Slovakia, and Czech Republic – State of Play and Prospects for Cooperation, CASE-Center for Social and Economic Research, Warsaw, 2021.

Lányi, K., 'The collapse of the COMECON market', *Russian & East European Finance and Trade*, Vol 29 No 1, 1993, pp. 68-86.

Laputko, K., 'The Transformation of Judicial Independence in Belarus in The Post-Communist Era', In. S. Shetreet, et al., *Challenged Justice: In Pursuit of Judicial Independence*, Brill Nijhoff, Leiden, 2021, pp. 249-257.

Laqueur, W., *The political psychology of appeasement: Finlandization and other unpopular essays*, Routledge, New York, 1980.

Marozau, R., et al., Small and Medium Business in the Period of the Pandemic, *Bankovskiy Vestnik*, July 2021.

Mazepus, H., et al., Civil society and external actors: how linkages with the EU and Russia interact with socio-political orders in Belarus and Ukraine', *East European Politics*, Vol 37 No 1, 2021, pp. 43-64.

Movchan,, V., Export potential of Belarus's agro-food sector on the markets of Europe, Asia and Africa Part 1: plant-origin products, Policy Brief, German Economic Team Belarus, 2019a.

Movchan, V., Export potential of Belarus's agro-food sector on the markets of Europe, Asia and Africa Part 2: animal-origin products, Policy Brief, German Economic Team Belarus, 2019b.

Movchan, V. & Kirchner, R., Diversification of Belarusian Exports: The Potential of the DCFTA-Countries Ukraine, Moldova and Georgia, Policy Brief, German Economic Team Belarus, 2018.

National Bank of the Republic of Belarus, External debt statistics, 2021.

Naurodski, S., EU's unilateral trade liberalisation for Belarusian services, Belarus Insights No. 1/2021, CASE – Center for Social and Economic Research, 2021.

Newnham, R. E., 'Georgia on my mind? Russian sanctions and the end of the 'Rose Revolution'', *Journal of Eurasian Studies*, Vol 6 No 2, 2015, pp. 161-170.

Nilsson, N., Russian hybrid tactics in Georgia, Working Paper, Central Asia-Caucasus Institute and Silk Road Studies Program, 2018.

Nivievskyi, O. & Von Cramon-Taubadel, S., Dairy Supply Chain in Belarus: Bottlenecks and the Scope for Improvements, Policy Paper, Berlin Economics, 2011.

Novikau, A., 'Conceptualizing and achieving energy security: The case of Belarus', *Energy Strategy Reviews*, Vol 26, 2019.

Nuñez, D. F., *Lasting authoritarian features in Belarus: The Soviet Union's legacy in the building of a civil society*, Diplom.de., Berlin, 2021.

Orszag, P. & Stiglitz, J., Budget cuts Vs. tax increases at the state level: Is one more counter-productive than the other during a recession?, Center on Budget and Policy Priorities, 2001.

Osipov, R., et al., 'Competitiveness as a Prerequisite for Economic Growth', Bankovskiy Vestnik, No 3, 2020, pp. 106-108.

Repousis, S., et al., 'Freign direct investments and round tripping between Cyprus and Russia', *Journal of Money Laundering Control*, Vol 22 No 3, 2019, pp. 442-450.

Reuters Staff, 'Belarus, citing COVID-19-19 fears, to close land borders as brain drain bites', *Reuters*, 10 December 2020.

Richmond, Ch. J., et al. Reassessing the Role of State-Owned Enterprises in Central, Eastern and Southeastern Europe, International Monetary Fund, 2019.

Sahm, A., 'Civil society and mass media in Belarus', In. Balcameda, A. et al. (eds.), *Back from the cold*, EUISS, Paris, 2009, pp. 49-63.

Sapsford, R. & Abbott, P., 'Trust, confidence and social environment in post-communist societies', *Communist and Post-Communist Studies*, Vol 39 No 1, 2006, pp. 59-71.

Savchenko, A., 'Toward Capitalism or Away from Russia?: Early Stage of Post-Soviet Economic Reforms in Belarus and the Baltics', *American Journal of Economics and Sociology*, Vol 61 No 1, 2020, pp. 233-257.

Sejersen, M., 'Democratic sanctions meet black knight support: revisiting the Belarusian case', *Democratization*, Vol 26 No 3, 2019, pp. 502-520.

Shimova, O., 'Belarus on the Way to Sustainable Development: Circular Economy and Green Technologies' In. S. B. Sergi, et al. (eds.), *Modeling Economic Growth in Contemporary Belarus*, Emerald Publishing Limited, London, 2019, pp. 89-106.

Shirley, M. & Walsh, P., Public vs. Private Ownership: The Current State of the Debate, Policy Research Working Paper, No 8288, World Bank Group, Washington DC, 2001.

Shkaruba, A. & Skryhan, H., 'Chernobyl science and politics in Belarus: The challenges of post-normal science and political transition as a context for science–policy interfacing', *Environmental Science & Policy*, Vol 92, 2019, pp. 152-160.

Shymanovich, G., Boltochko, A., 'Labor Market: Challenges for Development' (in Russian), *Bankovskiy Vestnik*, No 3, 2020, pp. 109-113.

Smalenskaya, V., et al., Business in Belarus: a Monthly Monitor. IPM Research Center, BCI/21/06, 2021.

Stern, D. L. & Dixon, R., 'Belarus once cultivated high-tech talent. Now those people are fleeing political crackdowns', *The Washington Post*, 24 June 2021.

Sullivan, J. E. & Kamensky, D., 'How cyber-attacks in Ukraine show the vulnerability of the US power grid', *The Electricity Journal*, Vol 30 No 3, 2017, pp. 30-35.

Svoboda, K., 'Norms as a Political Weapon? Sanitary, Phytosanitary, and Technical Norms as Russia's Foreign Trade Tool', *Problems of Post-Communism*, Vol 68 No 1, 2021, pp. 66-73.

Tochitskaya, I. & Shershunovich, Y., Assessment of the Carbon Intensity of the Belarusian Economy and Payments Under CBAM, BEROC Policy Paper Series, No 26., 2020.

Treskov, A. P., et al., 'Constitutional Principles Of Judiciary: Peculiarities Of Formalization In The CIS Countries' *Cuestiones Políticas*, Vol 37 No 64, 2020, pp. 73-81.

Umapathi, N., "Social Protection in Belarus: Looking Forward' (In Russian), *Bankovskiy Vestnik*, No 3, 2020, pp. 75-80.

UNCTAD TRAINS, UNCTAD TRAINS database, 2021.

United Nations, Migration Data Portal, 2021.

United Nations, UN COMTRADE, 2020.

Vashkevich, A., 'Judicial "Independence" in Belarus: Theory and Practice', *Gdańskie Studia Prawnicze*, Vol 4 No 48, 2020, pp. 41-55.

Von Cramon-Taubadel, S. & Nivievskyi, O., Improving the Competitiveness of Agriculture in Belarus, Policy paper PP/05/10, German Economic Team and IPM Research Centre, 2010.

Weißenburger, U., 'Environmental problems in Belarus', *Economic Bulletin*, Vol 31 No 11, 1994, pp. 17-24.

Westover, J. H., 'A Preliminary Look at the Impact of Political and Economic Transformations on Societal Values and Attitudes in Post-Soviet Belarus, 1990–2000', *Interdisciplinary Civic and Political Studies*, Vol 7 No 1, 2013, 45-63.

Wilson, A., 'Belarus: from a Social Contract to a Security Contract', *The Journal of Belarusian Studies*, Vol 9 No 1, 2016, pp. 78-91.

World Bank, World Bank Indicators Database, Washington DC, 2021.

World Bank, Belarus Public Expenditure Review: Strengthening the Equity, Efficiency and Effectiveness of Social Expenditures in Belarus, Report, World Bank Group, Washington DC, 2020.

World Bank, Belarus - Systematic Country Diagnostic : towards a competitive, inclusive and dynamic Belarus, World Bank Group, Washington DC, 2018.

World Bank, Belarus Agricultural Productivity and Competitiveness: Impact of State Support and Market Interventions, Report No 48335-BY, Washington DC, 2009.

Youngs, R., New directions for EU civil society support—lessons from Turkey, the Western Balkans, and Eastern Europe, Working Paper, Carnegie Endowment for International Peace, Washington DC, 2020.

PE 653.663
EP/EXPO/AFET/FWC/2019-01/Lot1/R/03

Print ISBN 978-92-846-9152-4 | doi: 10.2861/757763 | QA-01-22-204-EN-C
PDF ISBN 978-92-846-9153-1 | doi: 10.2861/137837 | QA-01-22-204-EN-N