

Alaksandr Hancharonak, Belarusian Economic and Outreach Center
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What Drives Belarus to Be One of the Most Optimistic Nations in Europe?

War in Ukraine, imposed sanctions on Belarus and the worst yearly GDP drop since the 1990s. Despite these challenges, Belarusian households were the third most optimistic in Europe in late 2022, following Lithuania and Montenegro. The Belarusian Consumer Confidence Index, calculated on the basis of four household surveys conducted in Belarus by BEROC's Belarus Monitoring Project in 2021 and 2022, shows surprising resilience among Belarusians – especially in Q3 and Q4, 2022. This brief shortly describes the components of the index and their evolution and discusses what factors might have been driving this high index. The brief argues the found optimism among Belarusians could have been driven by a state-owned media influence and by the Belarusian economy performing better than expected.



Optimism Without Grounds?

In 2022, Belarus experienced a 4.7 percent yearly GDP drop, the worst since the 1990s. The main reasons behind the decline is the Russian war on Ukraine and Belarus' involvement in it, and, consequently, the severe sanctions imposed on Belarus and its main trade and economic partner: Russia. A surge of exports to Russia to counter the sanctions helped prevent the severity of the drop, although it still remains large. Forecasts for 2023 are also not encouraging. The World Bank expects the Belarusian economy to shrink by 2.3 percent. The European Bank for Reconstruction and Development's forecast is -1 percent, the International Monetary Fund (IMF)'s is +0.2 percent, and the Eurasian Development Bank's +0.3 percent, whereas the announced official target is +3.8 percent. In total, the GDP decrease could be as large as -6.9 percent in the two coming years, following the World Bank's worst prognosis. The question is; Is this a lot?

The last GDP decline occurred in 2020 and amounted to a moderate -0.7 percent, despite the apex of Covid-19 related shutdowns, the decrease in the world economy, and the political crisis following the rigged elections in August. The most recent severe GDP drop happened between 2015 and 2016 with a decline of 3.8 percent in 2015 and 2.5 percent in 2016.

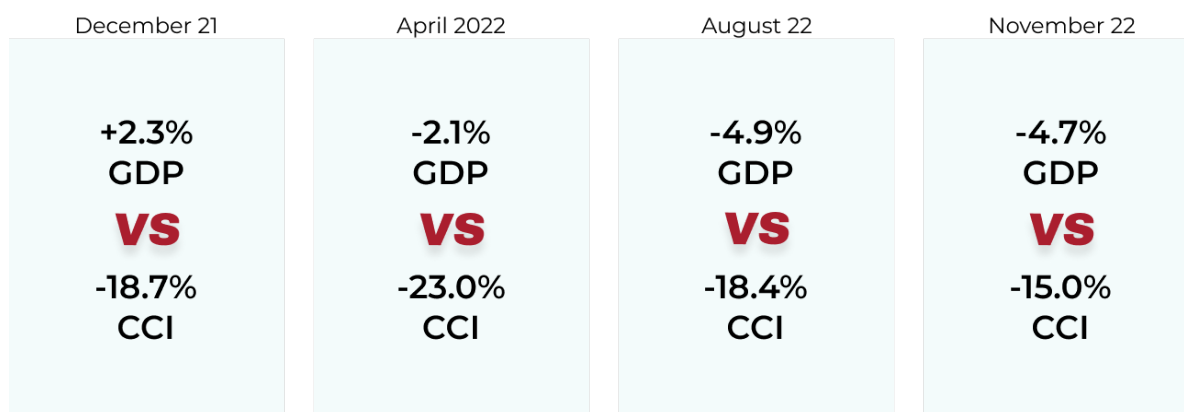
Surprisingly, the lower the GDP, the higher the consumer confidence, as measured by the Consumer Confidence Index (CCI). For example, the CCI was -18.7 percent in Q4 2021, while the GDP increased by 2.3 percent in 2021. On the contrary, the CCI in Q4 2022 was -15.0 percent, while the GDP dropped by massive -4.7 percent (see Figure 1).

The experience from numerous financial crises in the 2010s may play an important role here by moving the expectation baseline and conclusively undermining confidence in the country's economic institutions. However, even if this is the case, it would not explain the dynamics of consumer confidence in Belarus in relation to the country's economic performance. In this brief we dig deeper into the determinants of this seemingly ungrounded consumer optimism.

The Consumer Confidence Index

The Consumer Confidence Index (CCI) used for this brief is based on four household surveys conducted in Belarus by the Belarusian Economic and Outreach Center (BEROC)'s Belarus Monitoring Project. The online surveys were conducted in December 2021, and in April, August and November in 2022. The surveys are representative for the urban population aged 18-64 (approximately 5 million people). They have also been weighted by region, sex and age.

Figure 1. A comparison of GDP changes and the CCI values in Belarus in 2021 and 2022.



Note: Based on Eurostat methodology. Source: Belstat, BEROC.



The index is designed to measure consumer confidence from -100 percent to + 100 percent (0 being neutral). Consumer confidence is defined as the degree of optimism regarding the state of the economy which consumers express through their saving and spending patterns.

A few approaches for calculating the index can be used. One of them is the Eurostat methodology, which includes answers to four questions about households previous and expected financial position, the expected economic situation in the country, as well as the propensity to buy durable goods. Another approach is the Rosstat methodology, which, in addition to the Eurostat approach, includes one extra question on the previous economic situation in the country. We considered both methodologies to allow for a comparison of Belarus to countries in Europe as well as to Russia.

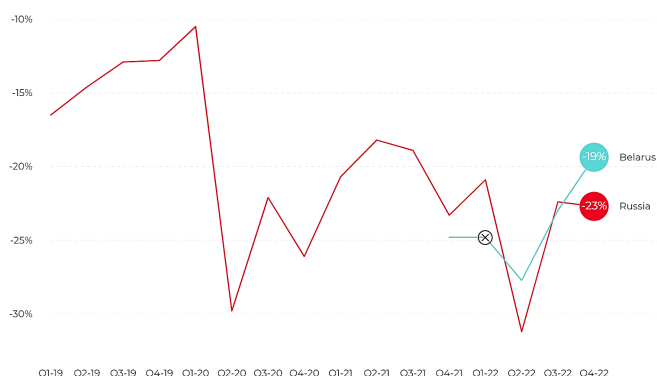
Belarus Compared to Russia

The CCI value, applying the Rosstat methodology, was -19.4 percent in Belarus in November 2022 (a 3.6 percentage point growth as compared to August 2022), while the index value in Russia was -22.7 percent (a 0.3 percentage point growth).

It is worth mentioning that there was a sharp drop in Q2 2022 in both countries. However, the index values recovered in Q3 2022 to Q4 2021 values, i.e., to the index values prior to the introduction of large-scale economic sanctions and prior to the war.

The pattern is somewhat similar to that during Covid-19-related restrictions, displaying a sharp drop and then a strong recovery. The magnitude of the drop was however much higher in 2020: 20.3 percent in 2020 compared to 10.3 percent in 2022 for Russia. No data is available for Belarus prior to Q4 2021 but the trajectory was likely similar. Apparently, households in neither country appear to be desperate (see Graph 1).

Graph 1. The CCI in Belarus and Russia.

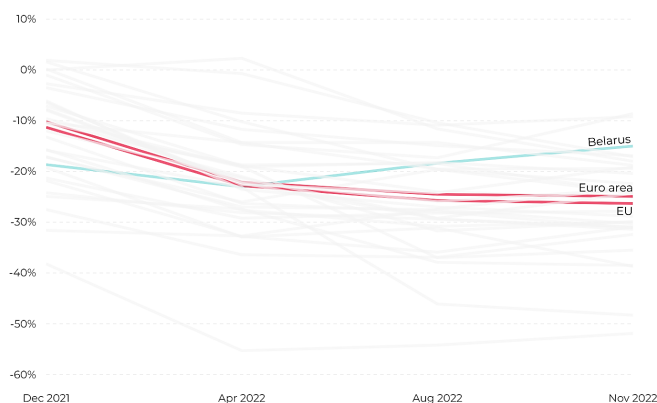


Note: Q1 2022 data not available for Belarus. Source: BERO, Rosstat.

Belarus Compared to Europe

The Belarusian CCI, when excluding the component of the past state of the economy (i.e. applying the Eurostat methodology), was -15.0 percent in November 2022. This was 3.4 percentage points higher than the value in December 2021 and the third highest value in Europe, following Lithuania (-9.2 percent) and Montenegro (-8.6 percent). Moreover, the index was the highest observed for the entire period of observations by BERO (from December 2021), as depicted in Graph 2.

Graph 2. The CCI in Belarus and the EU.



Source: BERO, Eurostat.

The index values of the European Union and the Eurozone have not changed significantly from Q2 2022 and currently stand at -26.3 and -24.9 percent, respectively. Naturally, some countries have faced slight reductions, while others have seen slight



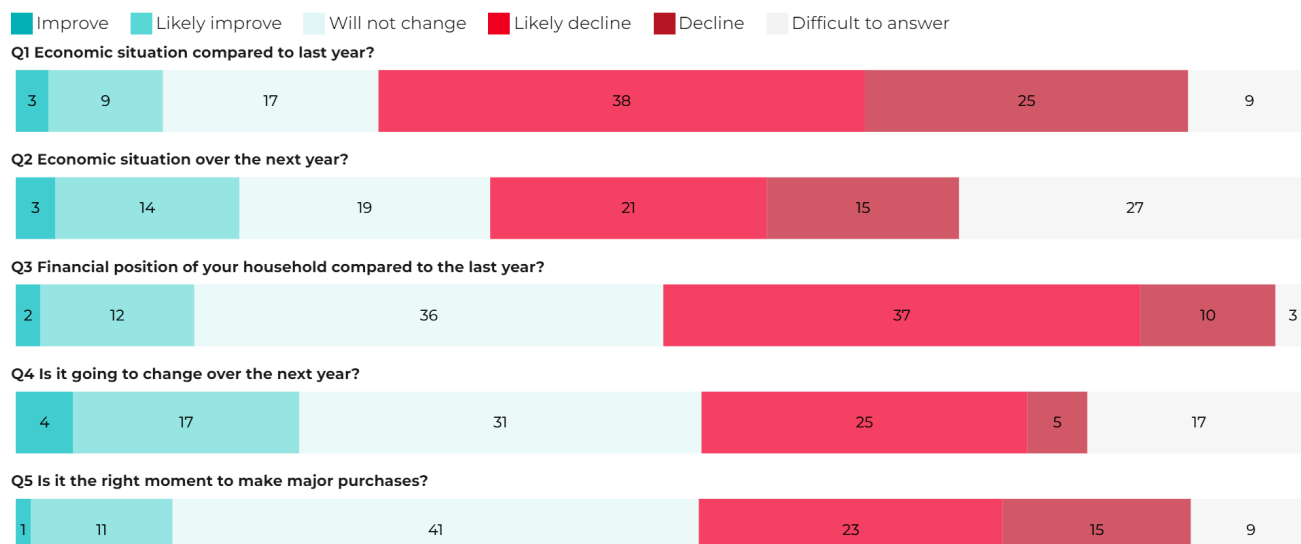
increases, for instance, the indices for Italy, Croatia and Cyprus had all increased by more than 4 percentage points in Q4, 2022.

As evident from Graph 2, Belarus has since Q4 2021, moved from a below average position to become a leader in optimism on the European continent.

The Past and the Future

Throughout all four surveys, evaluations of the current state of the country and of personal wellbeing contrasted the projections for the future

Graph 3. The composition of the CCI in Belarus for Q4 2022.



Note: All answers to the questions are distributed along a Likert scale from “will improve (has improved)” or “very good” to “will decline (has declined)” or “very bad”. For question 1 (Q1) and question 2 (Q2), the answer options range from “has improved” and “has declined”; and for question 5 (Q5), the answer options range from “very good” to “very bad”. Source: BEROC.

The largest negative contribution to the index was the question on the current assessment of the country’s economic situation in relation to the previous year (question 1). The share of negative answers was 72 percent in December 2021, and it decreased only to 63 percent in November 2022, even though the economic performance prior to those periods was a 2.3 percent GDP growth and 4.7 percent GDP decline, respectively. Apparently, the worse the economy performed, the better was the perception of the past.

This is however not the case regarding the state of the household’s financial position. The share of

(see Graph 3). The projections for the future are much more positive, which is evident if we compare question 4 and 2 to question 3 and 1. At the same time, the share of negative answers is higher than the share of positive answers for all questions, and the term “optimism” should therefore be taken as the lack of strong negative views on the past and future.

A higher share of “difficult to say or do not know” answers is unsurprisingly found for questions regarding the future.

negative answers was 48 and 47 percent, and the share of positive answers was 13 and 14 percent in December 2021 and November 2022, respectively.

The answers concerning the future standing of the economy and one’s personal financial position follow the same logic, with large disparities between the evaluation of the country’s economy – which one is negative about – and personal finances – where respondents are more optimistic.

What could influence the changes? We hypothesize that there are at least four possible



explanations for the improvement in the CCI from Q1 to Q4, 2022:

- a) a stabilization of the situation on the foreign exchange market
- b) a slowing GDP decline, reaching a “local minimum”
- c) an influence from Belarusian and Russian state-owned mass media outlets
- d) failed negative expectations in previous periods

As discussed in a previous FREE Network **Policy Brief** by Luzgina (2022), the Belarusian currency market has stabilized since April, 2022. The Belarusian exchange rate is somewhat of a “Holy Grail” and a crucial factor for Belarusians after numerous financial crises in 2010s, so its stabilization could act as a positive signal for households. Indeed, when asking respondents about the factors influencing their income, the share of those who attributed this to the exchange rate had in August 2022 decreased by 25 percentage points, as compared to April the same year (from 45 to 20 percent, respectively).

The GDP decline slowed in the second half of 2022, from -4.9 percent in August to -4,7 percent in November. An additional positive development for Belarusians was that the inflation declined in November.

Media consumption is another essential factor in understanding consumer confidence. State-owned and independent media consumers showed significant differences in their assessments of the economy. Only 22 percent of state-owned media consumers rated the economy as “bad” or “very bad” compared to 68 percent of independent media consumers.

In April 2022, the World Bank estimated a possible Belarusian GDP change at -6.5 percent, the IMF -6.4 percent and S&P -15 percent. The CCI in April was also at the lowest throughout BEROc’s observations at -23.0 percent. Despite these extremely negative forecasts for Belarus’ GDP, the actual outcomes were less catastrophic than

expected. This might have improved respondents’ assessment of the future economic situation.

Conclusion

Data from the online household surveys show that imposed sanctions, the Russian war on Ukraine, and a declining economic growth in 2022 have not yet significantly affected the sentiments of Belarusians on a large scale. Rather, Belarusians’ expectations have improved despite serious current and future challenges to the Belarusian economy. In fact, Belarus is among the most optimistic nations in Europe, according to the surveys.

This is arguably due to a financial stabilization and an economic performance above expected, as well as exposure to state-owned media.

With this in mind, we may see an increase in households’ consumption in the following months, which will contribute to a slowdown in the GDP decline or even a slight economic recovery in 2023 – pending no new shocks occur.

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Alaksandr Hancharonak

BEROC

hancharonak@beroc.by

www.beroc.com

Alaksandr works as a Researcher at BEROC. He graduated from the Belarusian State Economic University in 2018 and has previously worked as an Education and People Research Analyst at EPAM Systems (2017-2021).

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