

Issue 13 | March 2021 update

Summary

- Real GDP fell by only 0.9% in 2020; decline very low in international comparison. In 2021, however, GDP will contract more sharply by -2.7%
- Relatively soft COVID-19 measures explain the small decline in 2020; however, the ongoing political crisis clouds the outlook for 2021 in this context
- Inflation (2020: 7.4%) rises above the target, but the National Bank has yet to react
- Significant depreciation of exchange rate (-21%) despite sale of currency reserves (Feb-21: USD 7.1 bn); import cover drops to 2.6 months
- Budget balance deteriorated significantly to -4.7% of GDP in 2020. As a result, sharp rise in debt ratio last year (50.9% of GDP)
- Current account deficit increased in 2020 (-3.3% of GDP); only slight improvement in 2021 (-2.2%)
- Foreign trade declined in 2020 due to COVID-19, the energy dispute with Russia and the low energy prices; both exports (2020: -11.9%) and imports (-17.4%) very weak

Special topics

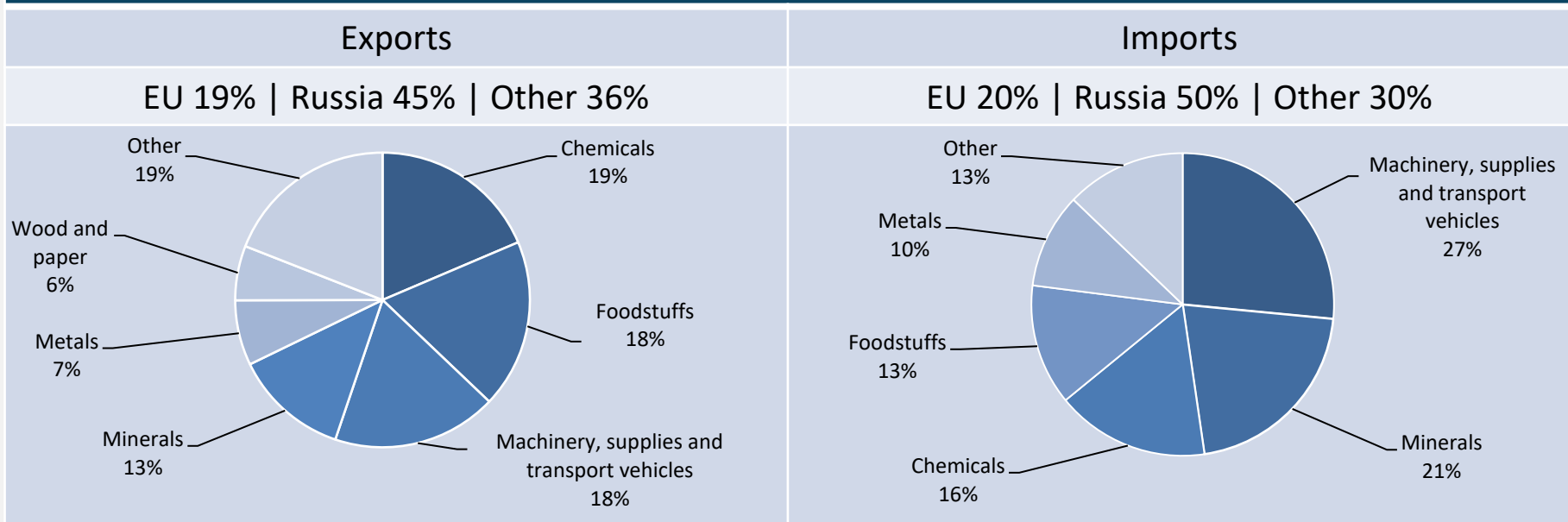
- **Companies.** Massive increase in debt and pessimistic expectations for the future
- **ICT sector.** Sector gains importance during the crisis, but outlook cloudy
- **Banking sector.** Signs of stress; duration of political crisis crucial
- **COVID-19.** Development of cases, domestic measures, policy response

Basic indicators

	Belarus	Russia	Ukraine	Moldova	Georgia
GDP, bn USD	60.3	1,464.1	154.7	11.4	16.3
GDP/capita, USD	6,379	9,973	3,717	4,318	4,763
Population, m	9.4	146.8	41.6	2.6	3.7

Source: IMF, National Statistics Offices, German Economic Team; data for 2020

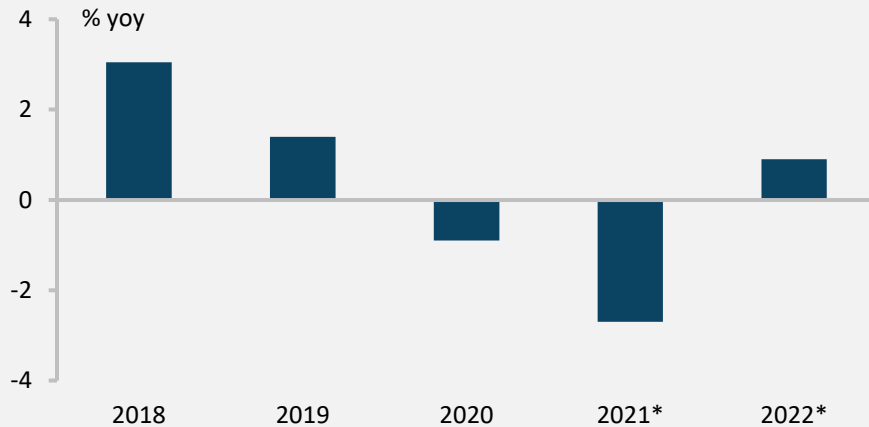
Trade structure



Source: Belstat, 2020; Note: trade in goods

Economic growth

Real GDP growth



Source: Belstat; *World Bank forecast

Change in GDP forecasts for 2020

	GDP forecast (% yoy)		Change (pp)
	early 2020	latest	
Belarus	0.9	-0.9*	-1.8
Ukraine	3.0	-4.6	-7.6
Russia	1.9	-4.1	-7.4
Uzbekistan	6.0	0.7	-5.3
Moldova	3.8	-6.7	-10.5
Georgia	4.3	-5.0	-9.3
Germany	1.1	-5.0	-6.1

Source: IMF, World Bank; *Belstat flash estimate for 2020

2020

- Forecast pre-COVID: +0.9%
- Current official estimate: -0.9%
- Hardly any restrictive measures, thus weak impact of COVID
- Political crisis as an additional negative factor, but barely discernible so far

2021

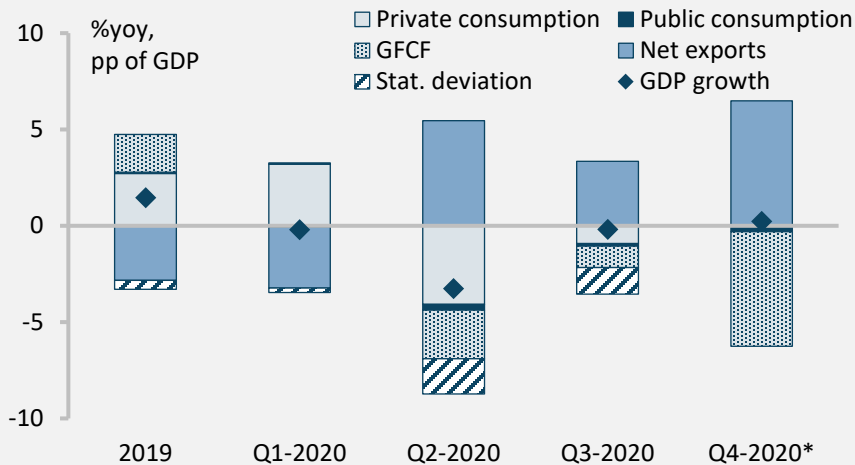
- Further deterioration in 2021 (-2.7%), lack of growth drivers
- Continuation of political crisis expected

International perspective

- Weakest impact of COVID-19 in regional comparison
- **Duration of political crisis is a decisive factor for overall development in 2021**

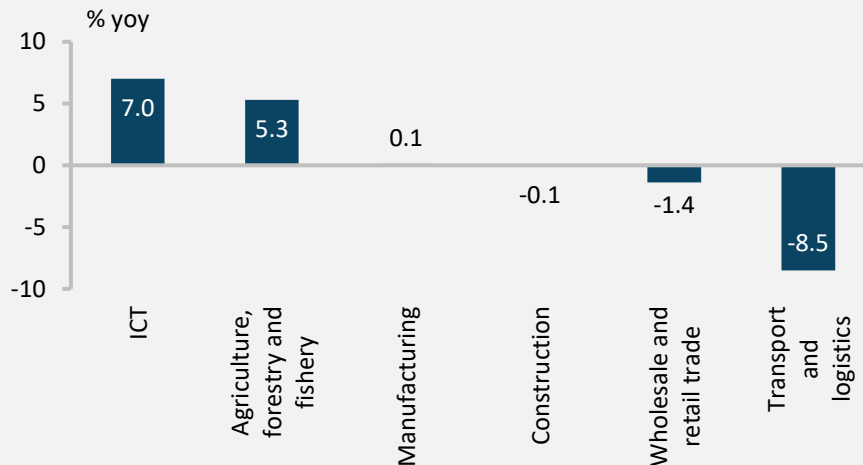
Demand and supply

Contribution to real GDP growth



Source: Belstat; *GET calculations

Sectoral dynamics



Source: Belstat; data for 2020

Impact of COVID-19

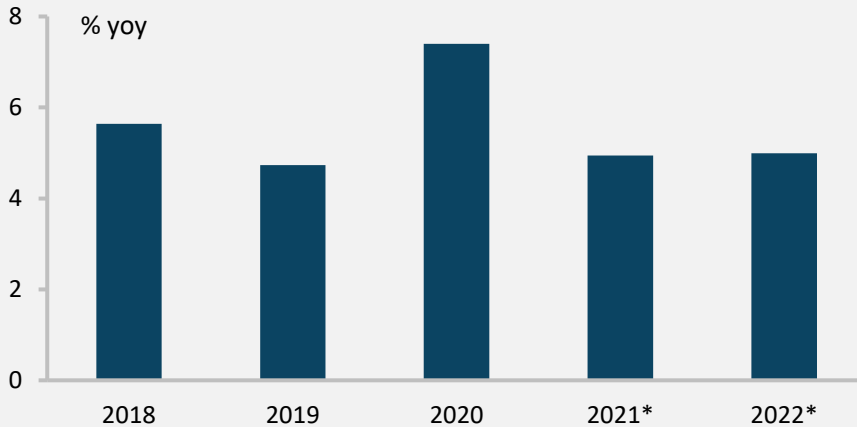
- Q2-20: Decline in private consumption (-4.1 pp) despite rising wages; investment also down (-2.5 pp)
- Slight stabilisation in Q3/Q4-20; strong decline of investment in Q4

Sectoral perspective

- Wholesale and retail trade, as well as transport and logistics affected the most by the pandemic
 - Disruption of Russian oil supplies hit manufacturing hard; however, new contract for 2021
 - ICT (2020: +7.0%) and agriculture (+5.3%) growing significantly
- **Currently slight stabilisation; negative impact of political crisis not yet clearly discernible**

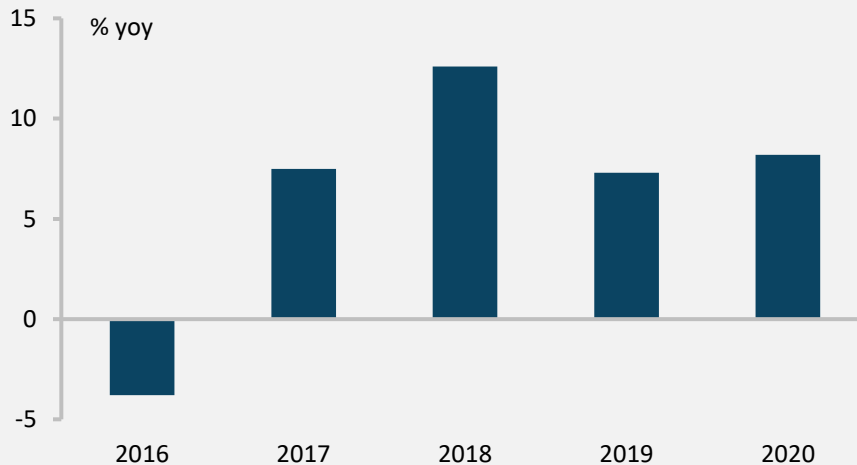
Inflation and wages

Inflation



Source: Belstat, IMF, *forecast; Note: eop

Real wages



Source: Belstat, Note: average monthly wage in BYN

Inflation

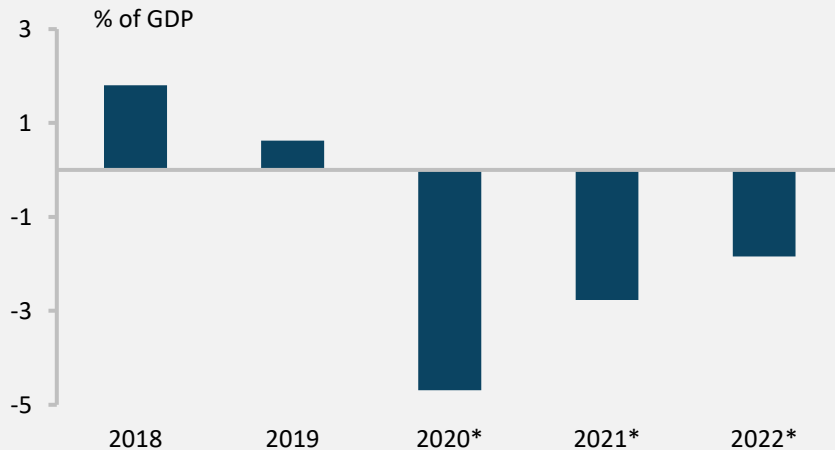
- 2020: increase to 7.4% (eop)
- Main driver: depreciation of BYN in the wake of COVID-19 and political crisis
- 2021: Expected to move back towards the target of 5%
- NBRB holds key interest rate at 7.75% since Jul-20

Wages

- Real wages continue to rise despite pandemic and political crisis (2020: +8.2%)
- But: But: reduction of average nominal monthly wages in USD due to depreciation of BYN (2020: 513 USD)
- **Inflation well above target; closely linked to exchange rate development**
- **No reaction of the National Bank so far**

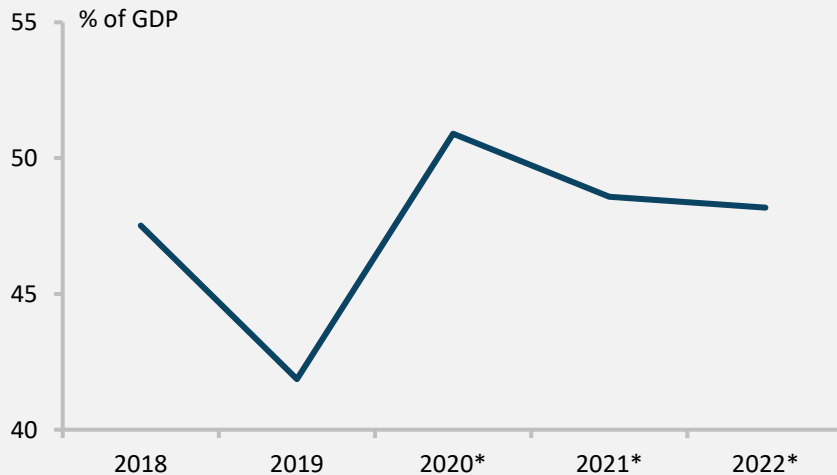
Public finances and government debt

Budget balance



Source: IMF, *estimate/forecast

Public debt



Source: IMF, *estimate/forecast

Budget balance

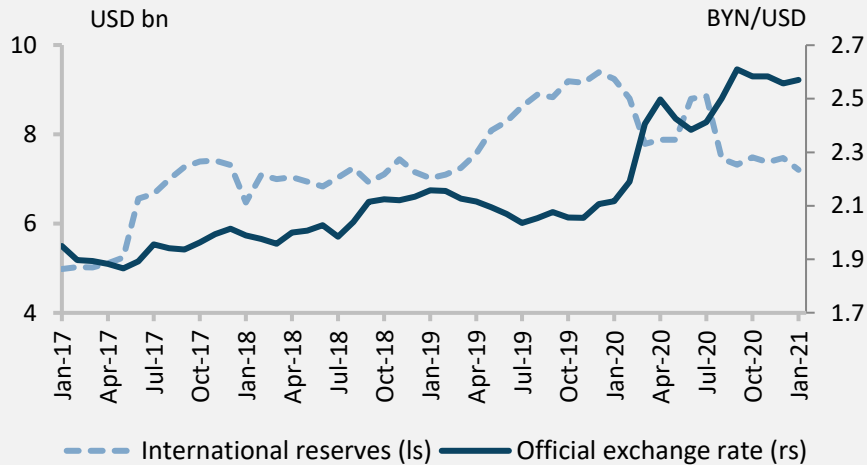
- 2020: Significant increase in deficit during the crisis (-4.7% of GDP)
 - 11M2020: Declining revenues (-3.4%) and rising expenditures (+7.8%)
 - Main drivers: Russian tax manoeuvre, Corona crisis, higher wage spending
- 2021/2022: Slight decline expected

Government debt

- 2020: Increase to 50.9% of GDP
 - EFSD credit of USD 500 m
 - RUS credit: USD 500 m disbursed in RUB; another 500 million in 2021
 - 2021/2022: similar level expected
 - High share of FX debt (approx. 98%) remains risk factor
- **Pressure on public budget increases; political crisis limits options**

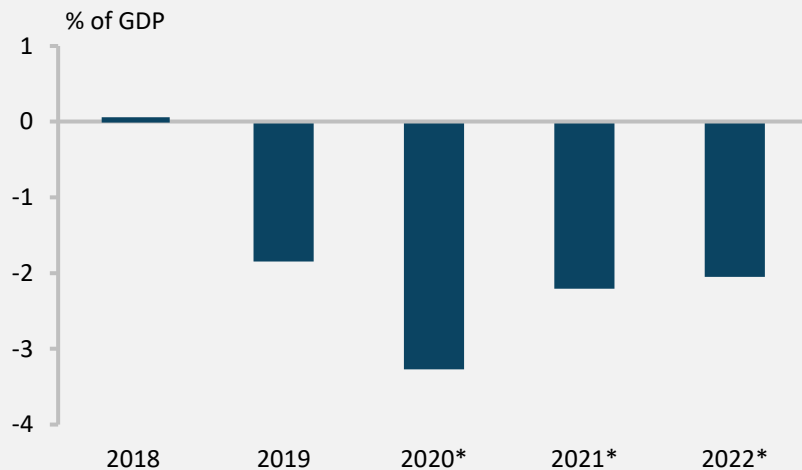
Current account and exchange rate

Exchange rate and currency reserves



Source: NBRB

Current account



Source: IMF, *estimate/forecast

Exchange rates and reserves

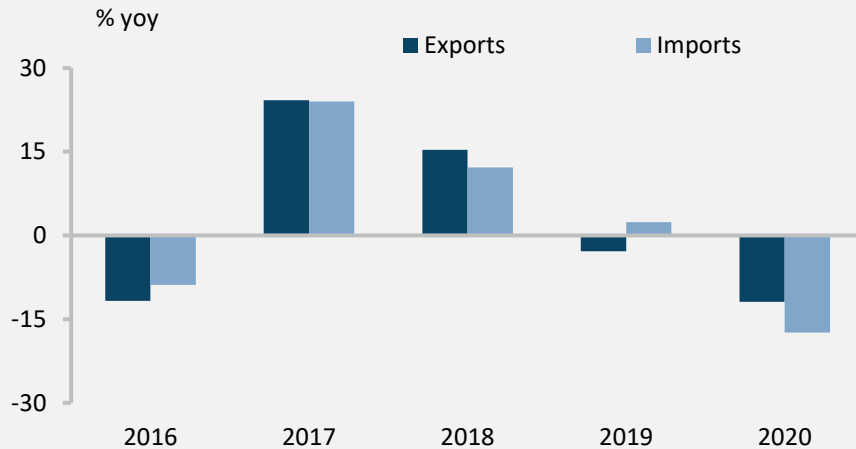
- Strong depreciation vs. USD of 21% (Dec-20 vs. Jan-20)
 - Reasons: Oil price decline and uncertainty due to political crisis
 - Stabilisation over recent months
- Currency reserves declined significantly (Feb-21: USD 7.1 bn)
 - Debt repayments and currency intervention
 - Import cover now only at 2.6 months

Current account

- 2020: increase of deficit (-3.3% of GDP)
- 2021/2022: deficit will remain above 2%
- **COVID-19 and political crisis significantly worsen external position**

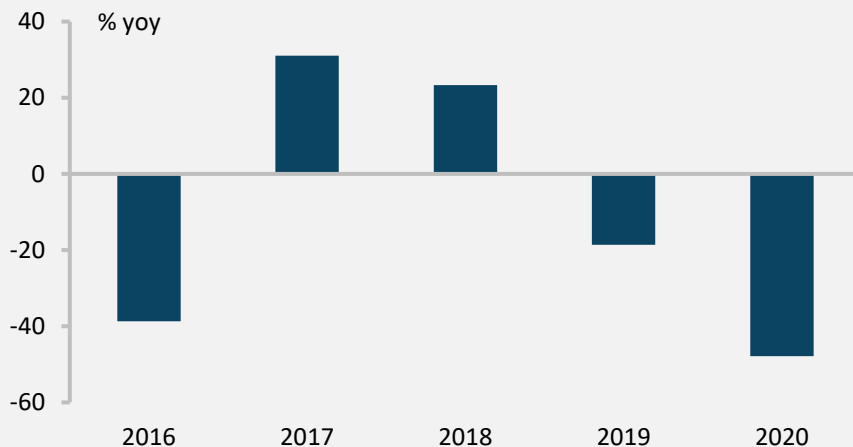
External trade

External trade



Source: Belstat; Note: trade in goods

Exports of crude oil and oil products



Source: Belstat; Note: based on the value of exports

Exports

- 2020: Decline by -11.9%
- Reasons: Weak global economy, interruption of Russian oil supplies in Q1-20, lower oil price
- Decline of exports of crude oil and oil products by -49,9% (2020)
- Slight stabilisation over recent months

Imports

- 2020: Decline by -17.4%
- Imports of minerals (mainly oil and gas) shrank by 31.3% (2020); machinery: -16.8%
 - New contract for Russian oil (and gas) in 2021; conditions similar to 2020

- **Massive slump in foreign trade**
- **Political crisis and COVID-19 could hamper swift recovery**

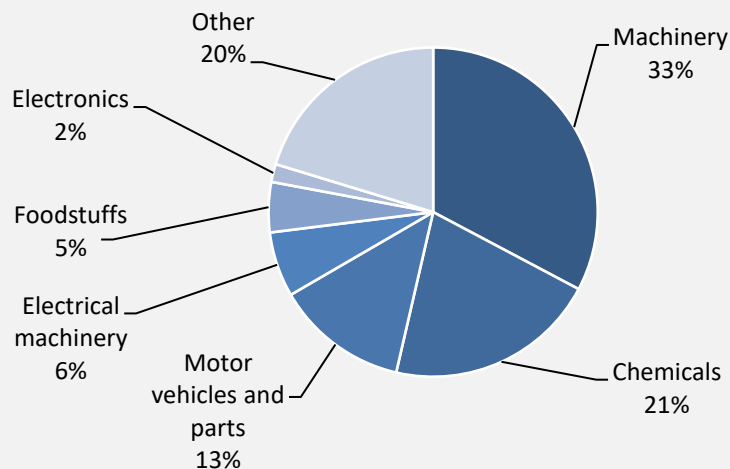
Bilateral trade between Belarus and Germany

Germany trade with Belarus



Source: German Federal Statistics Office; note: trade in goods

German exports to Belarus



Source: German Federal Statistics Office, 2020; note: trade in goods

German exports

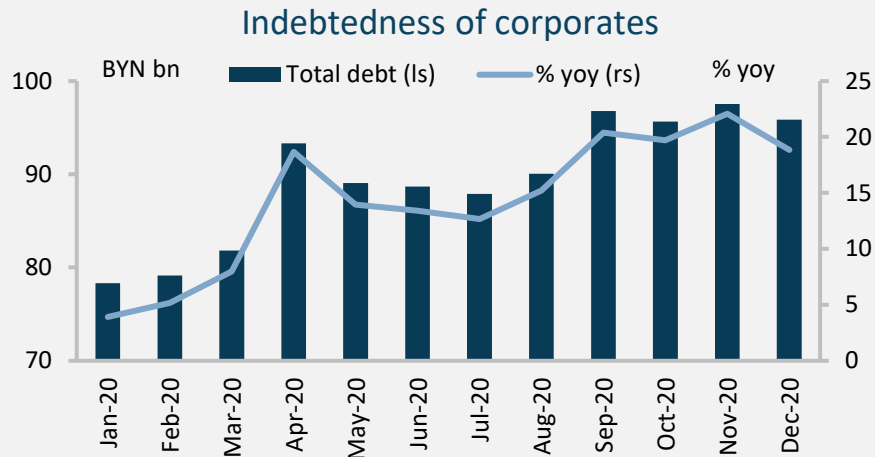
- 2019: EUR 1.4 bn
- 2020: -5,9%
 - Machinery: +9.8%
 - Chemical products: -1,1%
 - Food products: -9.1%

German imports

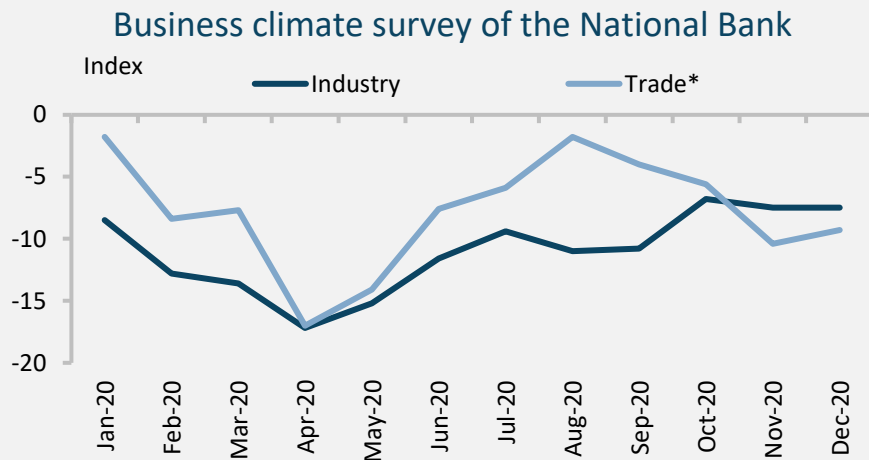
- 2019: EUR 0.5 bn
- 2020: -4,6%
 - Iron and steel: -17.2%
 - Wood: -13.9%
 - Furniture: +39.0%

- **Significant decline in exports after strong start to the year**
- **However: Trade with Germany declines less sharply than overall external trade of Belarus**

Situation of companies



Source: Belstat; Note: financial sector enterprises, insurance companies, local government bodies, and micro and small enterprises are not included; data as of the beginning of each month



Source: NBRB; Note: index based on assessment of company's economic situation; trade includes retail and motor vehicle repair; zero line implies neutral development

Debt

- Massive increase of corporate debt in Sep-20 to BYN 97 bn
- Slight decline in Dec-20; however, yoy growth remains in double digits (18.8%)
- Indication of financial problems at (state-owned) companies

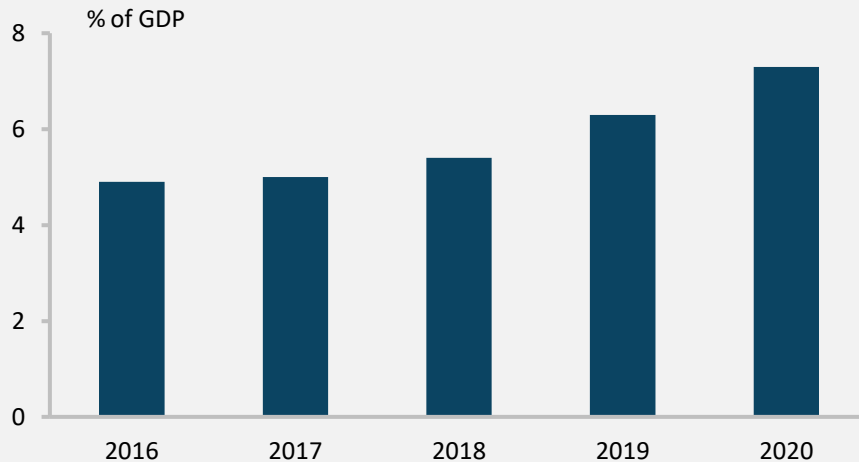
Business climate

- National Bank conducts regular business climate survey
- Significant deterioration in business climate in Apr-20, slight recovery later in the year
- Political crisis and "second wave" of COVID-19 worsen expectations again

➤ **Companies expect economic crisis to continue**

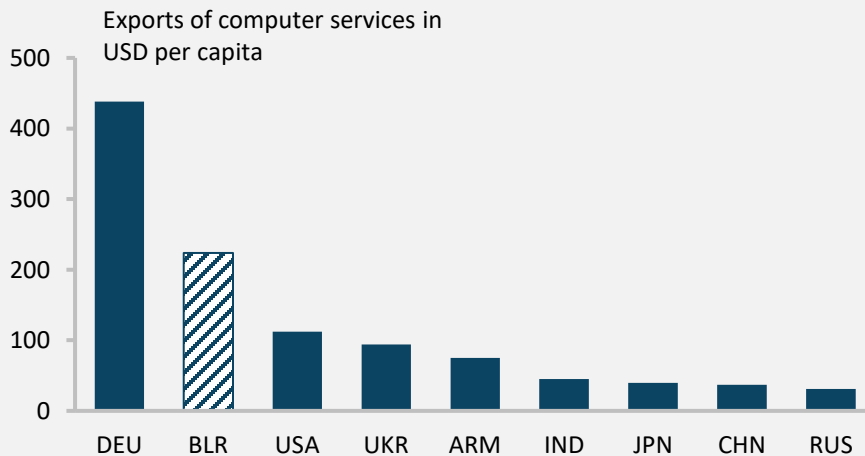
Development of the ICT sector

Share of the ICT sector in GDP



Source: Belstat

International comparison



Source: UNCTAD, World bank; data for 2019

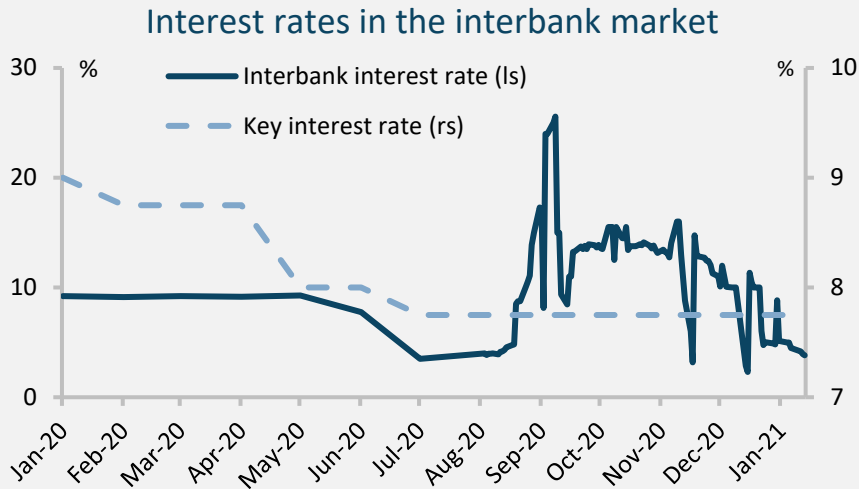
Economic significance

- Share of GDP of 7.3% (2020)
- Positive long-term trend, further acceleration due to COVID-19 crisis
- Exports of ICT services doubled between 2015-2019 to USD 2.4 bn (25% of total)

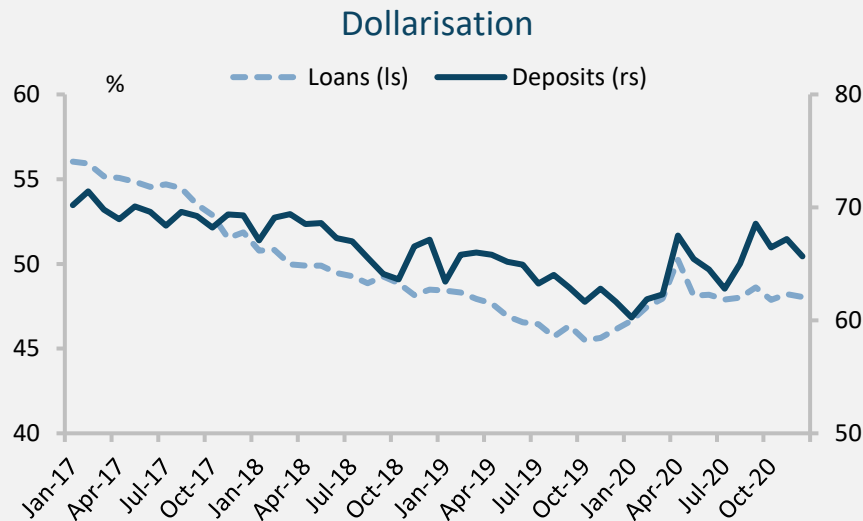
International comparison

- Exports of computer services per capita at over USD 220
 - Twice as high as in Ukraine
- Competition from Ukraine; creation of a favourable environment for ICT planned
- **Growing importance of the ICT sector in the long term**
- **But: will Belarus remain an attractive location in the future?**

Banking sector



Source: NBRB; for overnight loans in BYN, monthly average.



Source: NBRB

Indications of stress

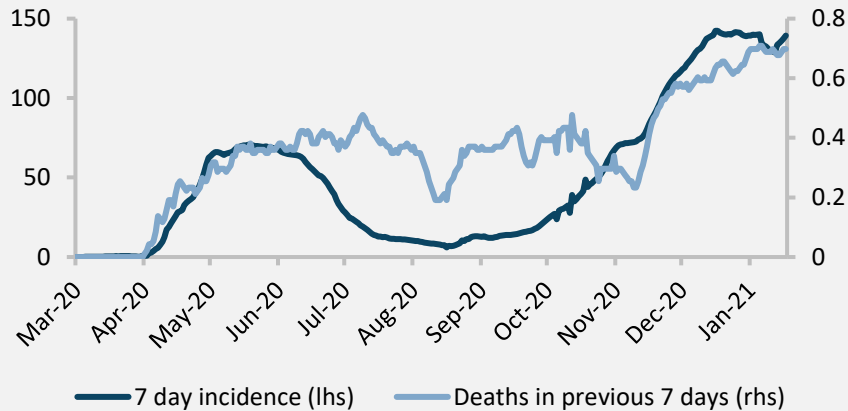
- Political crisis: higher FX demand and BYN depreciation tighten liquidity in the banking sector
- Significant increase of interbank interest rate to over 25% at its high
- Stabilisation over recent months

Dollarisation

- Banking system remains heavily dollarised
- 48% of loans and 66% of deposits are in foreign currency (01.12.2020)
- Bad for credit quality and earnings/capitalization of banks
- **Situation remains tense; close link to political situation**
- **Problems with NPLs to be feared in the medium-term, depending on duration of crisis**

COVID-19: overview of cases

7 day incidence and deaths



Source: Johns Hopkins University. Figures per 100,000 people

	7 day incidence	Deaths in previous 7 days
Belarus	140	0.7
Ukraine	116	2.7
Poland	132	5.7
Lithuania	290	9.2
Latvia	325	6.9
Russia	112	2.5
Germany	145	7.2
European Union	223	5.6

Sources: Johns Hopkins University, Worldometer. Figures per 100,000 people. Data as of 17 January 2021

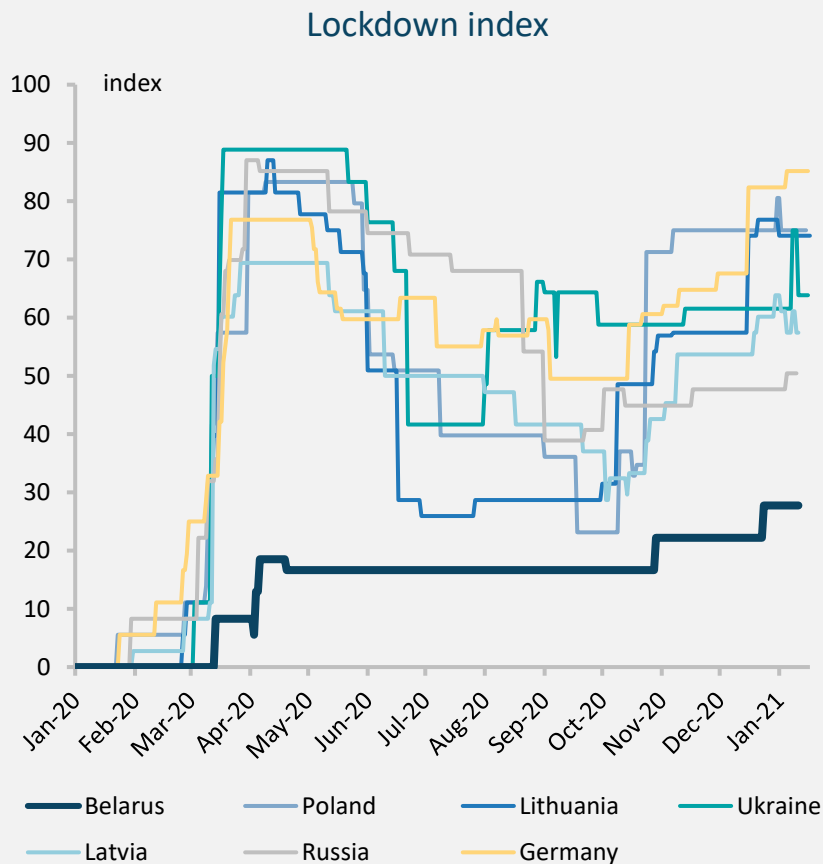
Domestic perspective

- March/April: sharp rise of new cases
- From end of Sep-20: significant increase in 7-day incidence; deaths increased significantly from Oct-20 onwards
- In Dec-20: approval of the Russian vaccine "Sputnik V" and order of 20,000 doses

International perspective

- 7-day incidence rather in the middle range in regional comparison
- Officially the lowest number of deaths in the region

COVID-19: containment measures and lifting



Source: Oxford COVID-19 Government Response Tracker

Note: the stringency index aggregates policy responses related to containment, closure and public information campaigns on a scale from 0 (lowest) to 100 (highest)

Domestic perspective

- Initially very limited containment measures
- From Nov-20: gradual introduction of new measures
 - Mandatory use of masks in most regions and large cities
 - Ban on entry by land from Latvia, Lithuania, Poland and Ukraine (exceptions for goods traffic)
 - Since Dec-20: exit ban for citizens and foreigners with a residence permit

International perspective

- Late response in Belarus, especially compared to Russia
- Weak measures in a regional comparison

COVID-19: measures by the government

Fiscal / Economic policy	Monetary policy
<ul style="list-style-type: none">• Additional funding for health sector, incl. wage subsidies• Additional payments and wage subsidies (up to minimum wage level) allowed in case of compulsory part-time work• Price regulation for certain goods (essential goods such as disinfectants, respirators)• Tax payment in installments possible• 6-month deferral of lease payment for state-owned land• Automatic renewal of certificates for 6 months	<ul style="list-style-type: none">• NBRB cut the key rate from 8.75 to 7.75%• FX interventions to mitigate the BYN depreciation• Mitigation of a number of prudential requirements (e.g. several indicators tied to credit risk)• Guidance/recommendations to banks ...<ul style="list-style-type: none">– ... to provide credit holidays– ... to refrain from increasing interest rates on restructured debt– ... to minimise the margin between FX sales and purchases– ... to avoid extra charges / fees for banking operations• Overall guidance to suspend dividend distributions• Prolongation of maturity of NBRB's refinancing loans for banks

Source: IMF, own research, Note: information as of 15 January 2021

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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