

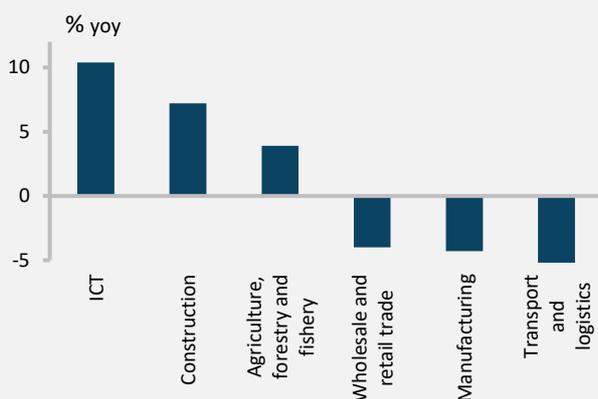
COVID-19 pandemic glooms economic outlook

After a significant slowdown in 2019, the Belarusian economy slides into recession in 2020. The projected decline in real GDP of 6% mainly reflects the influence of external factors: globally low energy prices and other repercussions of the COVID-19 pandemic, but also renewed problems with oil supplies from Russia and the continuation of the Russian tax manoeuvre. The latter is steadily increasing the pressure on the national budget and leaves little room for any public stimulus packages. The depreciation of the currency and rising wages in the run-up to the presidential elections in August 2020 imply substantial challenges to the National Bank; nevertheless, inflation remains well under control. Debt repayments and foreign exchange interventions have diminished FX reserves, implying additional risks against the background of a deteriorating current account. We expect the economy to recover in 2021, but this will not fully compensate for the losses in 2020.

Belarus slides into recession

After the economy grew by relatively modest 1.2% during the last year, it contracted by -1.8% in the period January-May 2020. The development of the domestic sectors presents a mixed picture. While ICT, construction and agriculture continue to expand, output in trade, manufacturing and the transport sector is declining.

Sectoral dynamics

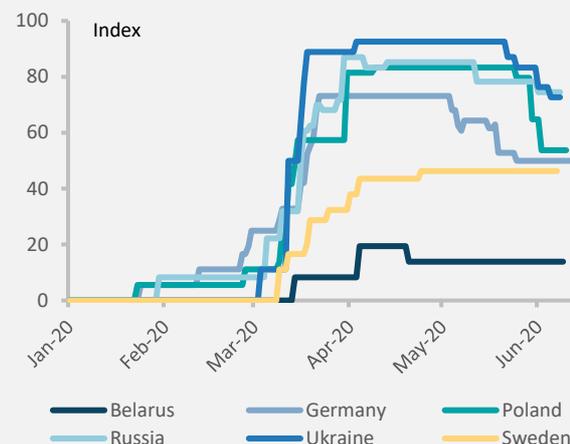


Source: Belstat, data for 5M 2020

The dominant question in this context is the impact of the COVID-19 pandemic on the economy, during which Belarus is taking a special path. While most states have introduced relatively strict contact restrictions to contain the virus, these measures are very soft in Belarus. As a result, the corresponding negative economic effects are less severe. At the same time, as an open economy with a strong link to the processing of energy

resources, Belarus is widely exposed to the many negative external influences of the pandemic.

“Lockdown” index



Source: Oxford COVID-19 Government Response Tracker

Note: The index collects information on the various measures governments have taken against the pandemic and presents them on a scale from 0 (lowest) to 100 (highest)

In addition, there were further interruptions in Russian crude oil deliveries at the beginning of the year, which placed a heavy burden on the manufacturing industry in particular. A final agreement on future supply conditions for oil and gas is still yet to be reached.

Outlook 2020/2021

The following table provides an overview of the development of selected key macroeconomic indicators.

Selected economic indicators

	2019	2020*	2021*
Real GDP growth, % change yoy	1.2	-6.0	3.5
Inflation, % change yoy (end of period)	4.7	6.5	4.9
Current account balance, % of GDP	-1.9	-2.9	-2.5
Budget balance, % of GDP	0.6	-4.6	-3.0
Gross government debt, % of GDP	41.9	59.6	54.7

Source: IMF, Belstat *Estimations/projections

Real sector and GDP

The negative trends in the real sector will continue over the course of 2020. GDP is expected to decline by 6% over the whole year. In particular, the problems of the oil processing industry (dispute with Russia over

delivery conditions; massive drop in oil prices) are to be mentioned here. Even though growth is forecast to recover to around 3.5% in 2021, no rapid, "V"-shaped recovery should be expected.

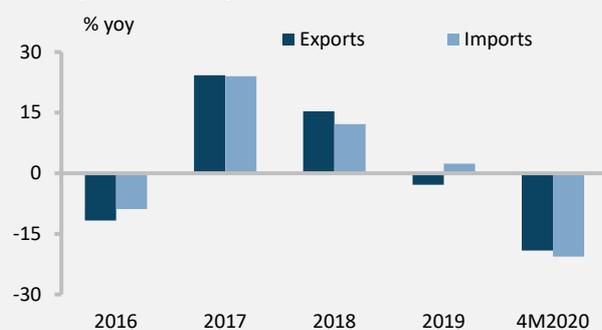
Inflation and wages

Inflation will rise slightly to 6.5% by the end of 2020, but remains under control of the National Bank; a decline to 4.9% is already expected for next year. The further development of real wages, which continue to grow in the run-up to the presidential elections despite the recession (+7.8% in the period January-April 2020), needs to be monitored.

External sector

Foreign trade is currently shrinking by about 20%, reflecting the problems in the oil trade and the general fall in crude oil prices.

Development of foreign trade



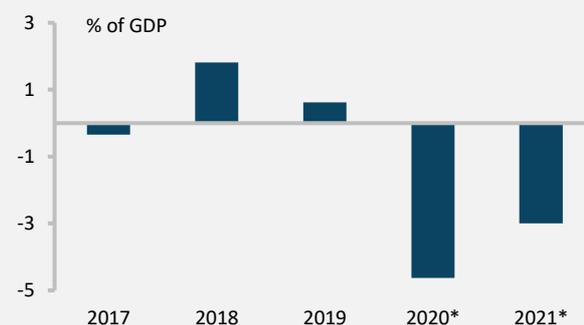
Source: Belstat; Note: Trade in goods

As in other countries in the region, the crisis has also led to a depreciation of the Belarusian rouble, which at its peak has fallen by almost 20% against the US dollar. Due to corresponding foreign exchange interventions by the National Bank, international reserves have fallen to USD 7.9 bn (Jan-20: USD 9.2 bn), which translates into a decrease of the import coverage to 2.6 months.

Public finances

The fiscal situation is tense, even though Belarus is not planning to implement any significant fiscal stimulus programme to combat the crisis. This once again reflects the impact of the Russian tax manoeuvre in the oil sector, which continues to gradually unfold its full effects. After years of surpluses, the budget deficit will rise to -4.6% of GDP in 2020 and is expected to remain at -3.0% in 2021. Accordingly, public debt will also increase significantly (2020: 59.6% of GDP, after 41.9% of GDP in 2019). On a positive note, Belarus recently issued Eurobonds with a volume of USD 1.25 bn at relatively favourable conditions. In addition, the country has applied for assistance from the IMF in the amount of USD 900 m.

Budget balance



Source: IMF, *Estimations/projections

Outlook

The COVID-19 pandemic hit an already weakened Belarusian economy: the interruptions in crude oil supplies and a gradual loss of privileged access to Russian oil have been a burden on the manufacturing industry and the state budget since 2019. Negotiations on future energy supply conditions continue, with some initial talks on partial compensation for the tax manoeuvre by Russia taking place. Although the economy is expected to recover in 2021, it will not be able to fully compensate for the losses in 2020.

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