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GET German Economic Team

NEWSLETTER

BELARUS

Economic growth continues to slow down

Economic growth slowed down significantly due to external factors and amounted to only 1.2% in 2019. High uncertainty about future supply conditions for Russian crude oil and gas, as well as ongoing structural problems, further dampen future growth prospects: the forecasts for 2020 (0.9%) and 2021 (0.5%) remain at a similarly low level.

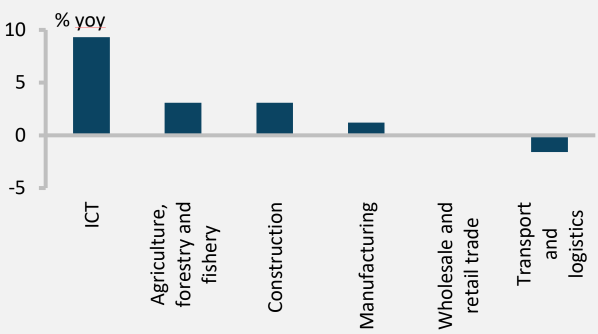
Consumer prices have grown by 4.7% in 2019, which is in line with the National Bank's inflation target. The exchange rate remained fairly stable and international reserves reached a historic high of USD 9.4 bn in December 2019. External factors and higher wage expenditure in the run-up to the elections increased the pressure on the public budget and led to a higher budget deficit. Foreign trade was particularly weak; especially exports were unable to continue their positive trend and contracted by 2.9% in 2019.

External factors dampen economic growth

In 2019, economic development slowed down significantly. Real GDP grew by only 1.2% – well below its previous year's level of 3.1%. The main reason for this was the negative influence of external factors. On the one hand, a weakening global economy and, in particular, a slowdown in the economic activity of the main trade partners played a central role. On the other hand, the pollution of the "Druzhba" pipeline and the resulting interruption in the supply of crude oil from Russia had a significant negative impact on the manufacturing sector.

The two most important sectors – manufacturing and wholesale and retail trade – stagnated in 2019. In contrast, the information and communication technology (ICT) sector performed particularly well, growing by 9.3%.

Sectoral dynamics



Source: Belstat

Domestic demand remained a key driver of the weak but positive growth in 2019, with real consumption growing in the first nine months of 2019 on average by 5.2%. This was mostly due to continued growth of real wages in the run-up to the elections.

Real GDP forecasts for 2020 (0.9%) and 2021 (0.5%) assume a further slowdown of economic growth, being subject to a high degree of uncertainty in light of the ongoing integration talks between Russia and Belarus and the outstanding negotiations of new supply conditions for crude oil and gas.

Selected economic indicators

	2019	2020*	2021*
Real GDP growth, % change yoy	1.2	0.9	0.5
Inflation, % change yoy (end of period)	4.7	4.5	4.2
Current account balance, % of GDP	-1.9*	-5.6	-2.6
Budget balance, % of GDP	-1.3*	-4.2	-1.9
Gross government debt, % of GDP	46.2*	52.7	52.1

*Source: IMF, World Bank, Belstat *Estimations/Projections*

Inflation remains under control

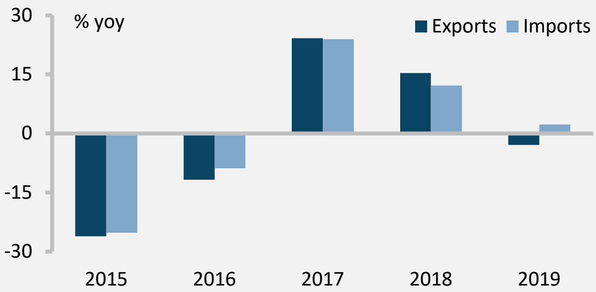
The consumer price index grew by 4.7% at the end of 2019, bringing inflation below its previous year's level of 5.6%. The National Bank was able to meet its inflation target of "no more than 5%" and lowered the key policy rate several times in 2019. In February 2020, it was cut by a further 25 basis points and currently stands at 8.75%. Consumer prices are expected to remain stable; inflation is forecast at a similarly low level in 2020 (4.5%) and 2021 (4.2%).

In 2019, real wages increased significantly by 7.3%, after already growing by 12.6% in the previous year. This mainly reflects wage increases in the public sector in the run-up to the presidential elections. Real interest rates for new loans in local currency slightly increased and stood at 6.1% in December 2019.

Foreign trade position deteriorates

Foreign trade developed negatively due to external influences. In 2019, Belarusian exports of goods decreased (-2.9%), while imports increased slightly (2.3%). Exports to the EU fell especially sharply (-17.5%). This is mainly due to the interruption of Russian crude oil deliveries in the wake of the pollution of the "Druzhba" pipeline. Crude oil and oil products are the most important export goods to the EU. For 2020, a high degree of uncertainty about further developments remains, as no new contract for supplies of crude oil and gas from Russia has been negotiated yet.

Development of foreign trade



Source: Belstat; Note: Trade in goods

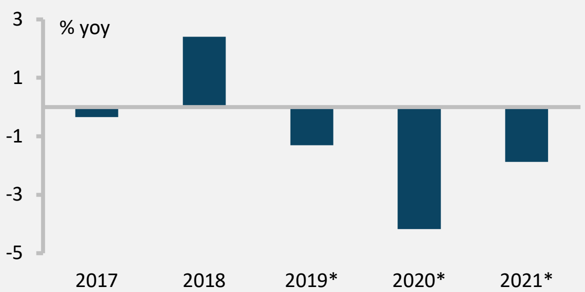
The current account deficit widened to -1.9% of GDP in 2019 and is expected to worsen further in 2020 (-5.6%). In addition to the weak export performance, the Russian tax manoeuvre plays a decisive role: the gradual alignment of the Belarusian purchase price for crude oil with the world market price will ensure that income from re-exports will decline steadily.

The exchange rate remained relatively stable in 2019: the slight appreciation in the first half of the year was offset by a depreciation in the second half. International reserve assets continued their positive trend, rising to a historic high of USD 9.4 bn in December 2019. This was accompanied by an increase in import coverage to about 3 months, which in turn strengthens resilience to possible further external shocks.

Pressure on the public budget increases

The Russian tax manoeuvre, weak exports of oil products and higher wages in the public sector are making themselves felt: the budget deficit widened to 1.3% of GDP in 2019 and is projected to reach 4.2% of GDP in 2020. This is based, among other things, on the assumption that customs revenues from the export of oil products will decline even further.

Budget balance



*Source: IMF, *Estimations/Projections*

Government debt declined slightly to 46.2% of GDP in 2019. An ungranted Russian loan of USD 600 m was offset by a loan from the Chinese Development Bank of CYN 3.5 bn (about USD 500 m). The debt ratio is expected to rise again to 52.7% of GDP in 2020.

Outlook

Economic growth slowed down significantly in 2019. Even if the negative influence of some external factors is only temporary, there is a similar risk of default in 2020 due to outstanding negotiations of new supply conditions for Russian gas and oil. In early 2020, there was already a brief interruption in crude oil supplies from Russia, as a result of which real GDP in January 2020 fell by 1.9% yoy. This aspect is among others subject of the ongoing integration talks between Russia and Belarus, where so-called "roadmaps" on gas, oil and taxes are still not fully negotiated. Furthermore, the Russian tax manoeuvre remains without compensation and its negative impact will further increase over the coming years. Extensive structural reforms are still lacking and will most likely not be tackled in year of elections. All of this clouds the growth forecasts for 2020, which currently project real GDP growth of 0.9%.

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