

Against the tide: No economic recovery in sight

Last year, the entire global economy was dominated by a single issue – the COVID-19 pandemic. With a GDP decline of 0.9%, Belarus made it through the crisis relatively unscratched. This can be explained primarily by the almost complete absence of local lockdown measures.

In the wake of the ongoing political crisis following the presidential elections, financial risks and economic uncertainty have increased significantly. These factors will have a significant negative impact on economic development this year. Thus, while the global economy is slowly leaving the COVID-19 pandemic behind and expands again, the economic crisis in Belarus is likely to worsen.

Moderate impact of the COVID-19 pandemic

In 2020, global economic development was overshadowed by the COVID-19 pandemic. Over the past year, the Belarusian economy recorded a real GDP decline, which amounted to 0.9%. In regional comparison, however, Belarus appears to be in a better position than its neighbours: according to the latest estimates and forecasts, the negative impact of COVID-19 on the Belarusian economy appears to have been quite moderate.

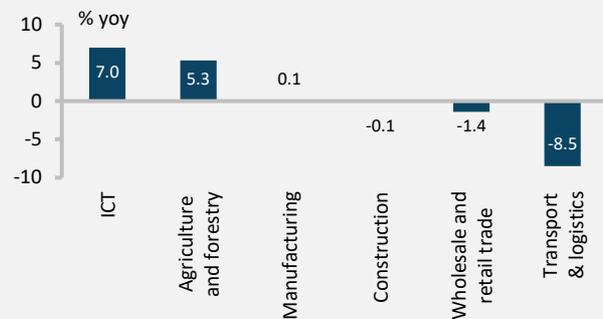
Change in GDP forecasts for 2020

	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	-6.0
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, GET; *Belstat flash estimate for 2020

Above all, the moderate decrease of real GDP in 2020 should be seen against the background of the lax local measures taken to contain the pandemic. For example, retail trade and gastronomy were only partially or belatedly exposed to a lockdown. Furthermore, state-owned enterprises continued production despite weak sales, thus building up significant inventory stocks. The pandemic also accelerated the positive growth trend in the emerging ICT sector (2020: 7.3% of GDP).

Sectoral dynamics



Source: Belstat; data for 2020

By contrast, the transport & logistics sector was hit particularly hard, contracting by 8.5%. Production in the oil-processing industry also fell by just under 10% due to the interruption of Russian crude oil supply in Q1 2020 and the sharp drop in the oil price. Nevertheless, the manufacturing sector managed to record a weak, but positive growth rate of 0.1%.

Political crisis clouds the outlook

Even though the impact of the COVID-19 pandemic was relatively modest in regional comparison, the Belarusian economy is not expected to recover quickly. The ongoing political crisis following the disputed presidential elections in August 2020 plays a central role here. The increasing uncertainty is reflected in the forecasts for 2021/2022, which overall point to a continuation of the very tense economic situation.

Selected economic indicators

	2020	2021*	2022*
Real GDP growth, % change yoy	-0.9	-2.7	0.9
Inflation, % change yoy (end of period)	7.4	4.9	5.0
Current account balance, % of GDP	-3.3*	-2.2	-2.1
Budget balance, % of GDP	-4.4*	-2.8	-1.8
Gross government debt, % of GDP	50.9*	48.6	48.2

Source: IMF, World Bank, Belstat *estimates/projections

Real sector and GDP

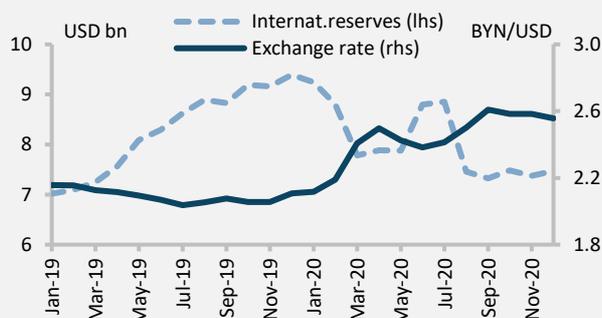
For 2021, the World Bank expects GDP to decline by 2.7%. This is based on the assumption that a quick solution cannot be found to the political turbulence and that the real sector will come under increasing pressure as a result. Even if this is not yet reflected in the current figures, various surveys (IPM, National Bank) indicate that companies have negative expectations for the future. In addition, corporate debt has increased by

more than 20% in 2020. This poses the risk of a renewed increase in loan defaults, especially among state-owned enterprises. The investment climate is also clearly suffering from the current instability; one risk is the possible introduction of economic sanctions. On the positive side, however, a new contract for oil and gas has already been signed with Russia for 2021 and supply thus appears to be temporarily secured.

Monetary policy and exchange rate

Inflation increased sharply to 7.4% in 2020, which was partly due to the strong growth of real wages (2020: 8.2%) and the depreciation of the Belarusian ruble (-21% yoy). The National Bank has not yet reacted to this development and has kept the key interest rate at 7.75% since July 2020. Nevertheless, inflation is expected to return to the target level of 5% in 2021/2022.

Exchange rate and currency reserves



Source: NBRB

The COVID-19 pandemic and political developments clearly demonstrated the weaknesses of the heavily dollarized economy (65% of deposits and 50% of loans are in FX). In particular, the population's lack of confidence in the domestic currency led to the significant depreciation and liquidity shortages in the banking sector. This also hit foreign exchange reserves, which have fallen significantly due to exchange rate interventions and debt repayments (currently: USD 7.5 bn). Import cover currently amounts to only 2.7 months.

External sector

Due to the weak global economy, the sharp drop in the oil price and the temporary halt of Russian oil supply, foreign trade contracted significantly. Belarusian exports fell by 13.4% over 11M2020, while imports plunged by 17.8%. Despite slight positive impulses over the recent months, a quick recovery is not expected due to the ongoing pandemic and the tense political situation. The current account deficit widened to -3.3% of GDP in 2020 and will remain at a similar level in the coming years.

Public finances

The already mentioned factors led to a significant deterioration of the fiscal situation in 2020. The Russian tax manoeuvre, COVID-19 and higher wage expenditures throughout the year were the main drivers behind the increase in the budget deficit to -4.7% of GDP; only a slight improvement is expected in 2021/2022. Public debt also increased significantly (2020: 50.9% of GDP). The high share of FX debt (currently: approx. 98%) remains a significant risk factor, especially against the backdrop of lower FX revenues and FX reserves. In addition, the tense political situation significantly limits future refinancing options.

Outlook

Even though the impact of the COVID-19 pandemic on the Belarusian economy was comparatively mild last year, this is no cause for optimism. The economic outlook is marked by great uncertainty, which does not create a favourable environment for new investment. In the current tense political and financial situation, monetary and fiscal policy are likely to be geared more toward maintaining macroeconomic stability than actively stimulating growth in the economy. While the vast majority of other countries will be on a path of economic recovery in 2021, there is no quick end in sight to the home-grown crisis in Belarus.

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