

# **Macroeconomic Trends and Forecast**

## **Republic of Belarus**

Directorate of Research

*December 2020*



# Summary



## Trends:

- The Belarusian GDP contracted by 1.1% YoY in January–October 2020
  - ✓ Weakening consumer and investment activity
  - ✓ Increased uncertainty amid socio-political tensions
  - ✓ Reduced external demand and difficulties with transportation
- The Belarusian ruble weakened, as net demand for foreign currency increased in the domestic market
- Inflation accelerated to 6.2% YoY in October
  - ✓ Exchange rate pass-through effect
  - ✓ Growth of inflationary and devaluation expectations
  - ✓ Restrained demand limited inflationary processes
- Monetary policy tightening in the second half of 2020

## Forecast 2021-2022:

- GDP contraction is estimated at 1.5% in 2020
- Economy to contract by 0.1% in 2021
  - ✓ Weak investment activity (consequences of socio-political tensions, unstable finances of businesses)
  - ✓ Moderate consumer demand
  - ✓ Fiscal policy tightening
- Recovery of pre-crisis (4Q2019) level of GDP in 2023
- Inflation to slow down to 5.5% YoY in 2021 after 6.4 in 2020
  - ✓ Normalization of the Belarusian ruble exchange rate dynamics
  - ✓ Weak domestic demand

# Real Sector. Decline in Economic Activity

Belarusian GDP decreased by **1.1%** YoY in January–October 2020:

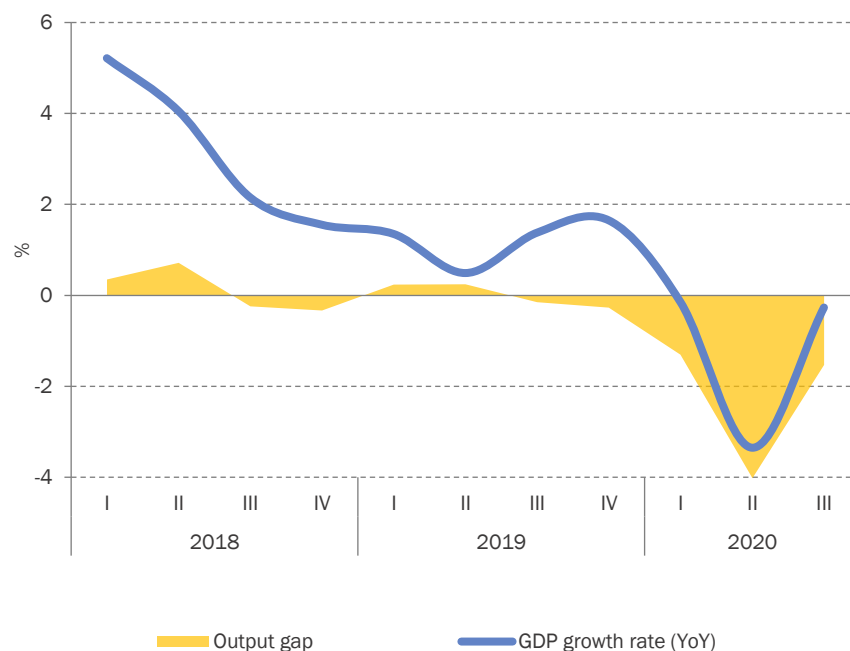
— Weakening of consumer and investment demand (social distancing, difficulties with transportations, increased uncertainty, decline in market lending, weak financial performance of companies, slowdown in household income growth)

— Lower external demand

+ Growth of inventory stocks

+ State support measures

## Economic Activity

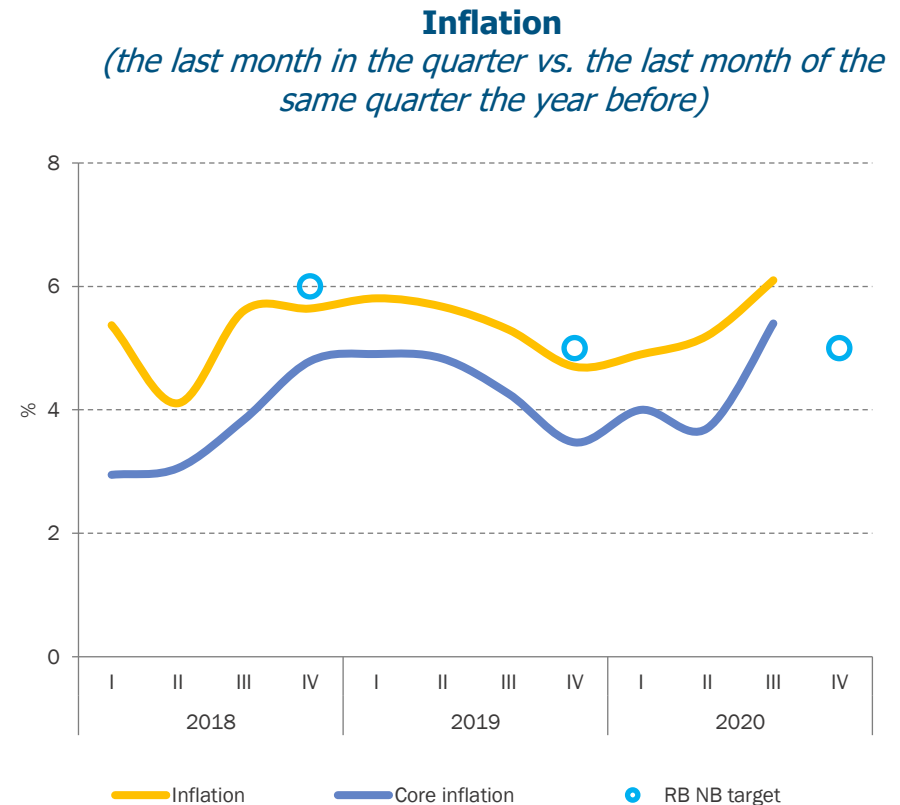


Source: National Statistical Committee, EDB calculations

# Inflation. Acceleration under the Influence of the Weakening Ruble

CPI inflation was **6.2% YoY** in October 2020 (4.7% YoY in December 2019):

- + Weakening of the national currency
- + Challenging transportation and logistics
- + Acceleration of inflationary and devaluation expectations
- Weak domestic demand



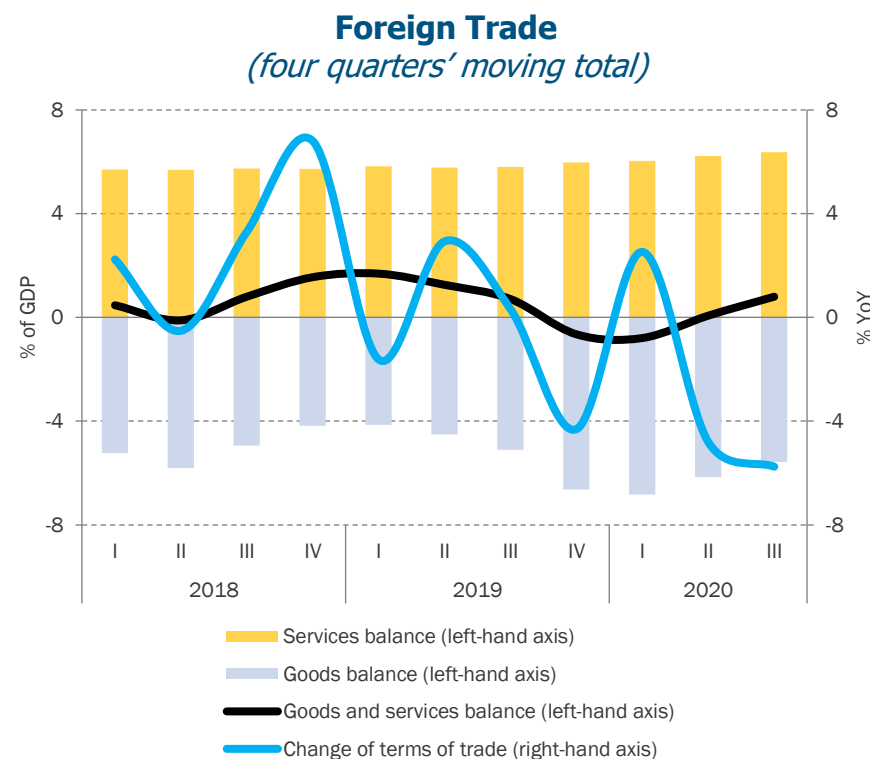
Source: National Statistical Committee, RB NB

# External Sector. Downturn in Foreign Trade

Significant drop in foreign trade in goods and services in the first 9 months of the year (down 17.1% YoY). At the same time, the trade surplus increased to USD 1.5 billion:

- Weakening external demand
- + The weakening of the national currency
- + Decline of domestic demand
- + Sales of food products abroad saw an upturn
- + Tourism restrictions

Reserve assets decrease to USD 7.5 billion as of November 1: the National Bank have sold foreign currency on the market to support the Belarusian ruble



Source: National Statistical Committee, RB NB, EDB calculations

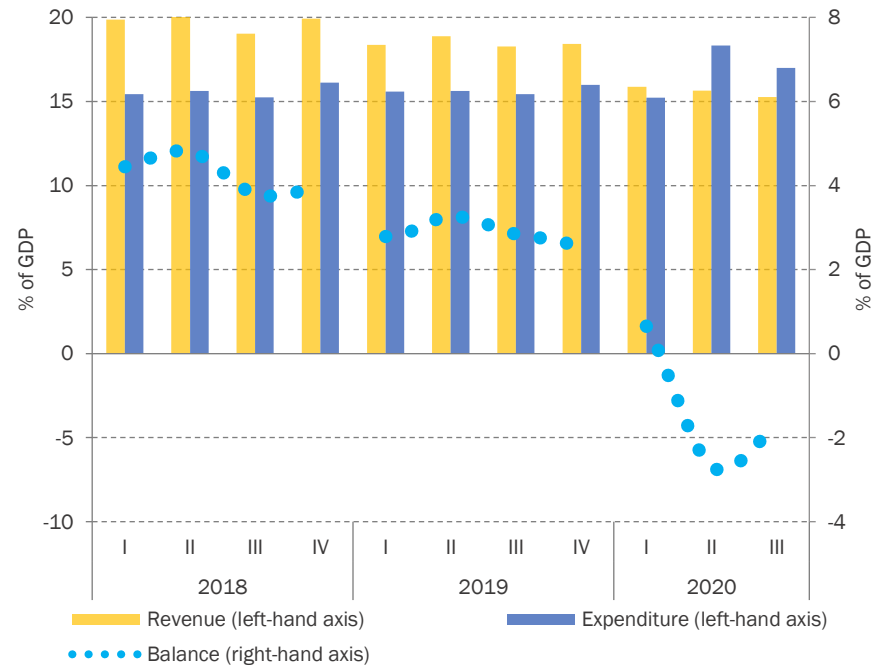
# Fiscal Sector. Budget in deficit

The Republic's budget posted a deficit of **0.5% of GDP** in January–October 2020 :

- Foreign trade revenues experienced a significant downswing
- Reduced gratuitous income from foreign countries
- Deterioration in financial indicators of businesses
- Capital expenditures growth
- Government measures to support the economy

The public debt increased to 36.2% of GDP as of November 1, 2020 (33.7% of GDP as of January 1, 2020)

**The Republic's Budget**  
(cumulative for the period)



Source: MF RB, EDB calculations

# Monetary Sector. Pressure on the Ruble

Monetary policy tightening since the end of August (against the background of increased inflationary risks) through the suspension of liquidity support operations in the form of overnight loans

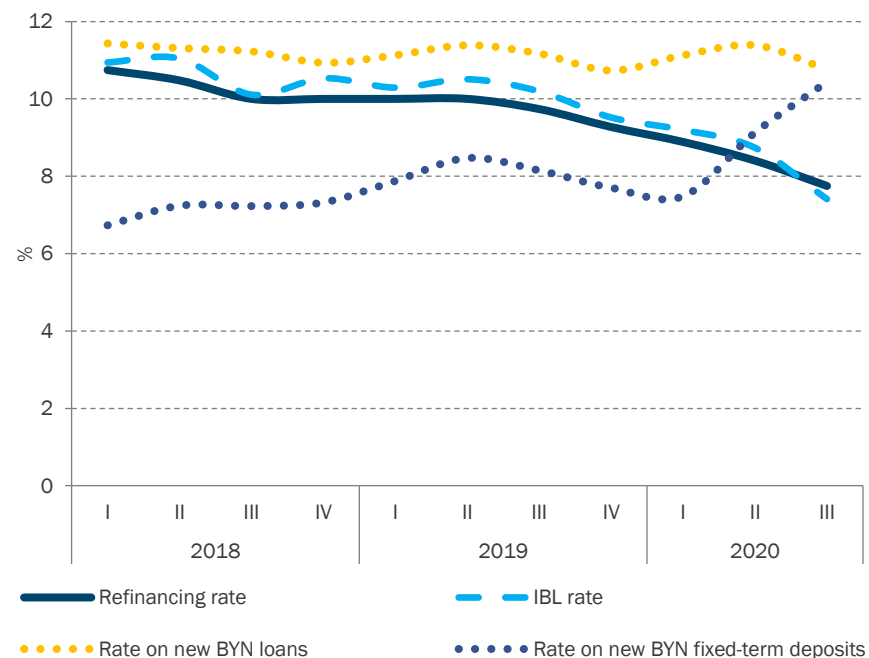
Outflow of individual deposits as devaluation expectations increased

Decreased supply of loans by banks due to the increased cost of borrowing and restrictions on raising interest rates on loans

Belarusian ruble weakens:

- Net demand in domestic foreign exchange market
- Rising geopolitical risks
- + The National Bank Interventions

**Interest Rates**  
*(period average)*



Source: RB NB, EDB calculations

# Forecast. Slow Recovery of Economic Activity

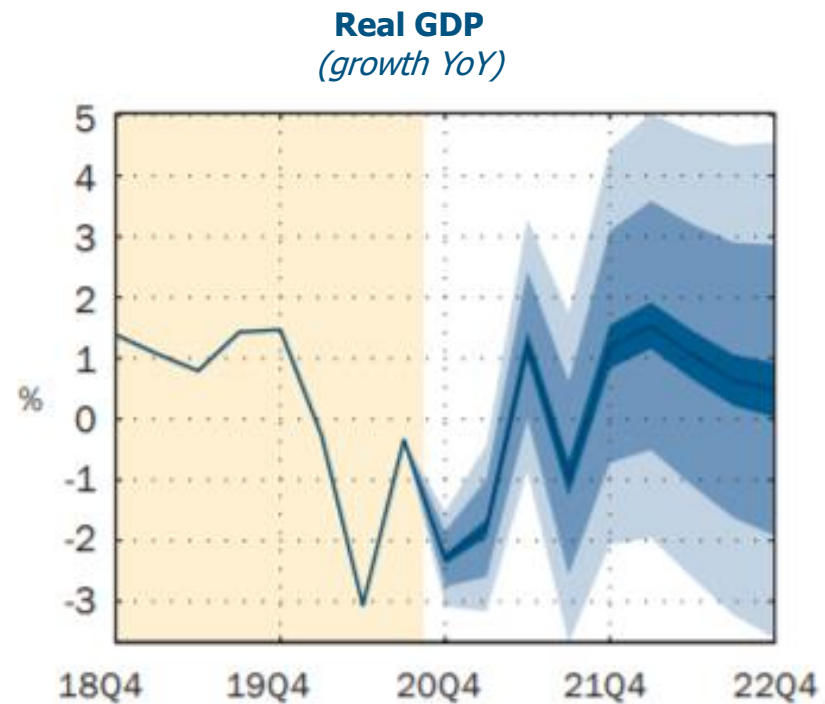
Belarusian GDP will decrease by **0.1%** in 2021 after reduction by 1.5% in 2020:

- Weak investment activity (consequences of socio-political tensions, unstable finances of businesses)
- Slowdown in household income growth
- Fiscal policy tightening
- + Recovery of business activity abroad

The pre-crisis level of GDP (4Q2019) will be reached only in the first half of 2023

Continuing risks to economic growth:

It is still unclear how significantly investment activity was affected by the socio-political events



Note: seasonally adjusted data  
Source: EDB calculations

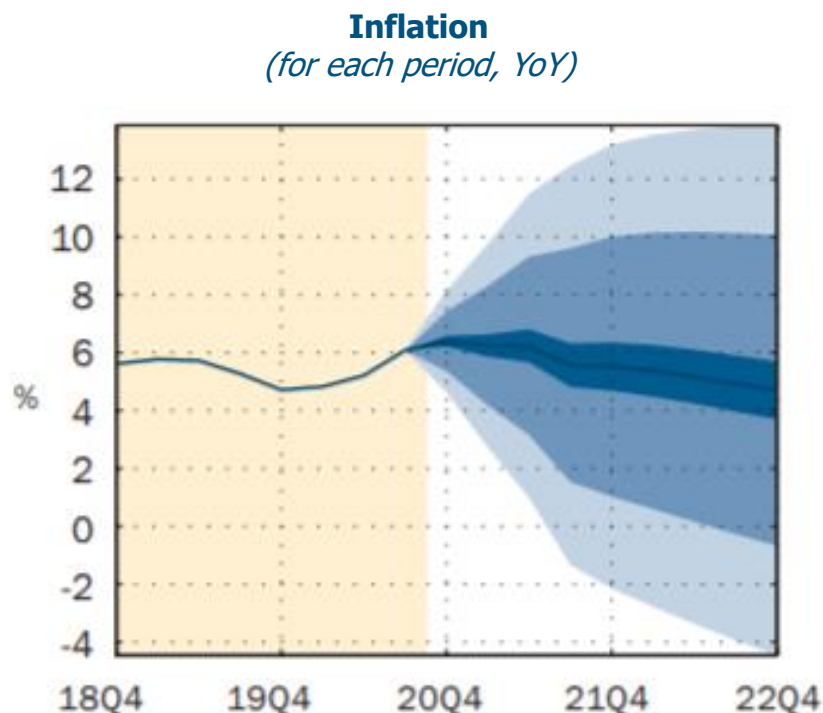


# Forecast. Inflation to Slow Down in 2021–2022

Inflation to slow down to **5.5%** in 2021 after 6.4% in 2020:

- Disinflationary impact of domestic demand
- Normalization of the Belarusian ruble exchange rate dynamics

Inflation is projected to slow down to 4.7% in 2022, due to the implementation of a balanced monetary policy and lowering inflation expectations

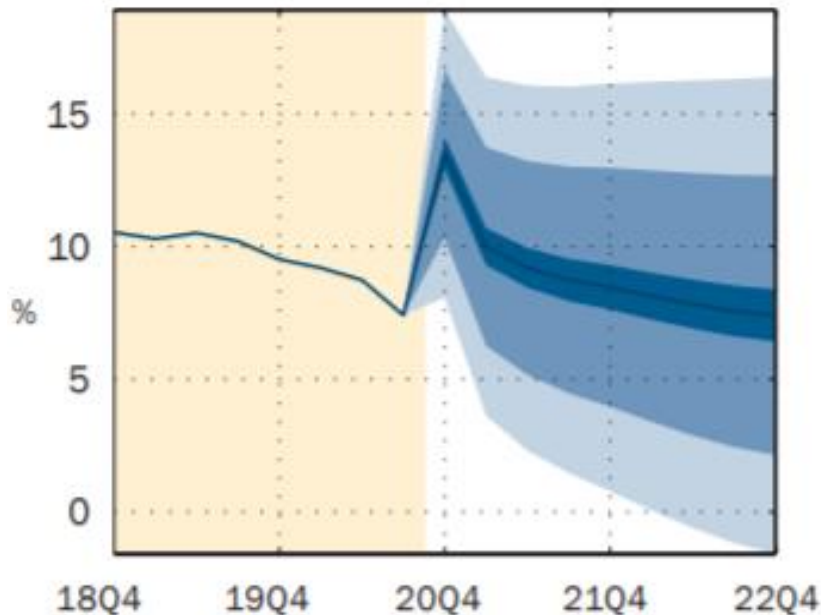


Note: seasonally adjusted data  
Source: EDB calculations

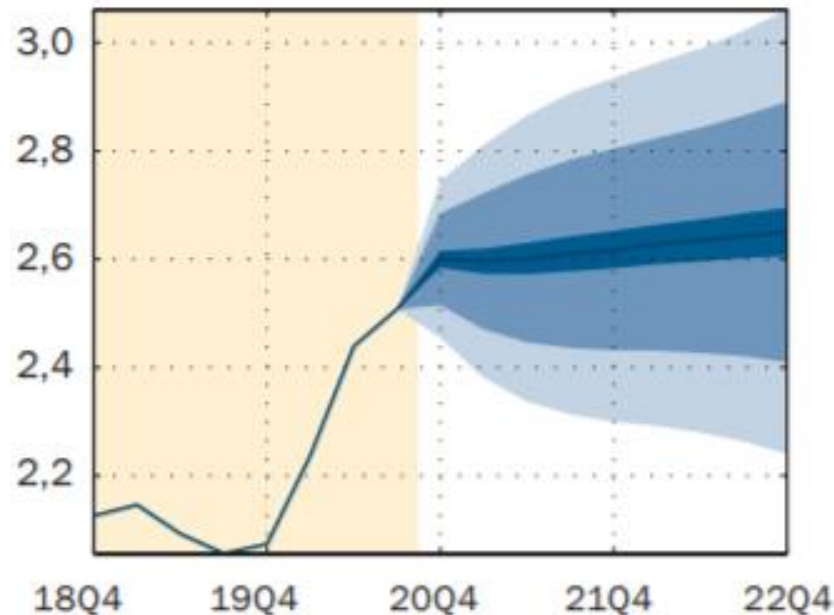
# Forecast. IBL Rate Reduction in 2021

- The gradually decreasing devaluation and inflationary expectations will facilitate the return of the cost of borrowing in the interbank market to the upper band of the RB NB's interest rate corridor (about 8–8.75%) during 2021. In the medium term, we still see potential for the refinancing rate to decline against expected low economic growth.
- The exchange rate is expected to adjust to an equilibrium level during 2021–2022 provided that the situation in the domestic financial market stabilizes and the pandemic is contained.

**Interbank Loans Rate**  
(period average)



**Belarusian Ruble's Exchange rate Versus the U.S. Dollar**  
(BYN per USD)



Source: EDB calculations

# Forecast. Key Macroeconomic Indicators

Indicator	2017	2018	2019	2020F	2021F	2022F
<b>GDP</b> in constant prices <i>(% growth YoY)</i>	2.5	3.1	1.2	-1.5	-0.1	0.9
<b>Consumer price index</b> <i>(% growth in December to previous year's December)</i>	4.6	5.6	4.7	6.4	5.5	4.7
<b>Nominal rate on overnight IBL in national currency</b> <i>(the year's average % per annum)</i>	9.5	10.7	10.1	9.7	9.1	7.7
<b>Nominal Belarussian Ruble to U.S. Dollar Exchange Rate, BYN per USD</b> <i>(the year's average)</i>	1.93	2.04	2.09	2.45	2.61	2.64

Source: EDB calculations