Macroeconomic Trends and Forecast

Republic of Belarus

Research Department

October 2019
Summary

Trends:
- The slowdown of GDP growth in the 1\textsuperscript{st} half of 2019 to 0.9\% YoY
  - Completion of the recovery phase
  - The ingress of poor quality oil into the Druzhba oil pipeline
  - A slowdown of Belarus’ main trade partner economies
- Inflation remains high
  - Temporal factors: low harvest of 2018, increase in inflation in Russia, wages growth
- Trade balance deficit expansion
  - Global economic slowdown
  - Strengthening of the Belarusian ruble’s real effective exchange rate
  - Temporal suspension of export of Belarusian oil and oil products
  - Implementation of the tax maneuver in Russia
- Budget surplus decreases
  - Decrease of export customs duties on oil products

Forecast 2019-2021:
- GDP growth in 2019 – 1.2\%
  - Improvement of agricultural output
  - Consumer demand will be temporarily supported by salary rise
- Near-potential growth in 2020–2021 (around 1.5\% per year)
- Inflation will be close to the NB RB’s targets
  - Wages’ inflationary pressure is projected to peter out in the second half of 2020
  - Near-neutral impact of economic activity
- Interest rates remain near neutral levels
Real Sector. Economic Activity slows down

GDP growth in the 1st Half of 2019 – **0.9%** YoY (2.2% YoY and 1.3% YoY in 3Q and 4Q2018, respectively)

- The deterioration in net exports of goods and services
- Consumer demand growth slows down
+ Recovery of investment activity
+ The sector of information technology has been developing

Source: National Statistical Committee, authors’ calculations, EEC
Inflation. Inflation Still High

The CPI growth rate was 5.7% YoY in June 2019, up from 5.6% YoY in December 2018

+ Food inflation increased in the aftermath of a low harvest
+ Fuel prices appreciation
+ Wages dynamics
+ Temporal increase in inflation in Russia
  - Appreciation of real Belarusian ruble exchange rate

Inflation
(the last month in the quarter vs. the last month of the same quarter the year before)

Source: National Statistical Committee, NB RB
External Sector: Foreign Trade Deteriorates

The trade balance deficit expansion
- The global economic slowdown
- The strengthening of the Belarusian ruble’s real effective exchange rate
- Temporal suspension of the export of Belarusian oil products
- The implementation of the tax maneuver in Russia

Service Trade in surplus
+ Growing exports of telecommunications, computer and information services

Net inflow of capital into the national economy increased
+ The placement of Eurobonds by the Development Bank of the Republic of Belarus

Balance of Payments
(in the period)

Source: National Statistical Committee, NB RB
Fiscal Sector. Budget Surplus Decreases

In January to June 2019, the surplus of the Republic’s budget was **3.3% of GDP**

— The decrease of export customs duties
  - falling export of Belarusian oil products
  - decreasing oil prices
  - the tax maneuver implemented in Russia

— Reduced gratuitous income from foreign countries

The public debt of the Republic of Belarus (35.1% of GDP) remains within the safe level (45% of GDP)

Source: MF RB, authors’ calculations
Monetary Sector. Interest Rates Near Neutral Levels

Refinancing rate reduced in August 2019 against the background of inflation risks reduction \( (\text{decrease of inflation in Russia, Belarusian ruble strengthening}) \)

The interbank loans rate continued to fluctuate near neutral levels

De-dollarization trends continues

Real appreciation of Belarusian ruble

+ Net supply in the domestic foreign exchange market
+ Higher inflation in Belarus than in its main trade partner countries

Source: NB RB, authors’ calculations
Forecast. Recovery of Economic Growth

GDP growth is projected at **1.2%** in 2019. Economic activity to recover in Second Half of 2019 due to:

- Improvement of agricultural output
- Wages rise in the State budget-funded sector
- Investment activity increase
- Foreign trade operations will continue to hinder output trends

The economic growth rate is expected to accelerate to **1.5% YoY** in 2020–2021

- Recovery of Belarusian exports
- Implementation of a number of major investment projects (BelNPP, chemical industry)
- Consumer activity is expected to decelerate

Source: authors’ calculations, EEC
Forecast. Inflation to Be Near Target

Inflation to be **5.1% at the end of 2019**

- Wages’ inflationary pressure
- New harvest
- Decrease of inflation un Russia
- Overvalued Belarusian ruble

Inflation to be near target in 2020–2021

- Near-neutral impact of economic activity
- Wages’ inflationary pressure is projected to peter out in the second half of 2020
- Exchange rate is close to equilibria

Source: authors’ calculations, EEC
Forecast. Interest Rates to Remain Neutral

- The interbank loans rate is around 10% in 2019–2020 – near-neutral effect on economic activity
- There is a potential for the interbank loans rate to lower to 9–9.5%, which will be facilitated by a gradual decrease in inflation
- The trend of the Belarusian ruble weakening will continue in the medium term while inflation in Belarus stays higher than in its main trade partner countries.

![Interbank loans Rate](image1)

*Interbank loans Rate (period average)*

![Belarusian Ruble’s Exchange rate Versus the U.S. Dollar](image2)

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

Source: authors’ calculations, EEC
## Forecast: Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019F</th>
<th>2020F</th>
<th>2021F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP in constant prices</strong> (% growth YoY)</td>
<td>-2.5</td>
<td>2.5</td>
<td>3.0</td>
<td>1.2</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Consumer price index</strong> (% growth in December to previous year’s December)**</td>
<td>10.6</td>
<td>4.6</td>
<td>5.6</td>
<td>5.1</td>
<td>5.1</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Nominal rate on overnight IBC in national currency</strong> (the year’s average% per annum)</td>
<td>20.6</td>
<td>9.5</td>
<td>10.7</td>
<td>10.1</td>
<td>9.6</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>Nominal Belarussian Ruble to U. S. Dollar Exchange Rate, BYN per USD</strong> (the year’s average)</td>
<td>1.989</td>
<td>1.932</td>
<td>2.037</td>
<td>2.098</td>
<td>2.190</td>
<td>2.281</td>
</tr>
</tbody>
</table>

**Source:** calculations by the authors, EEC