Summary

Trends:

- The slowdown of GDP growth in 2019 to 1.2%:
  - Completion of the recovery phase
  - Cooling consumer demand
  - Weak external demand
- Inflation was 4.7% YoY in December 2019, down from 5.6% YoY in December 2018:
  - Weak external inflation
  - Overvalued Belarusian ruble
  - Higher harvest
- Trade balance deficit expansion:
  - Global economic slowdown
  - Strengthening of the Belarusian ruble’s
  - Deterioration of the terms of trade in energy
- Budget surplus decreases:
  - Decrease of export customs duties on oil products
  - Growth of social spending

Forecast 2020-2022:

- GDP decrease in 2020 by 3.3%:
  - Negative impact of the COVID-19 pandemic
  - Output decline in the oil refining and chemical industry
- Cyclical economic growth recovery in 2021–2022
- Inflation will be close to the NB RB’s targets:
  - Weakening of the national currency – the key inflation factor
  - Disinflationary impact of economic activity
- Potential for interest rates reductions
Real Sector. Economic Activity Slows Down

GDP growth in 2019 – **1.2%** (3.1% in 2018):
- The deterioration in net exports of goods and services
- Consumer demand growth slows down
+ Agricultural output increased
+ The sector of information technology has been developing

Economic growth in 2019 was almost entirely provided by potential output (1.4 pp), while the impact of the cyclic component was minimal (minus 0.2 pp).

Source: National Statistical Committee, authors’ calculations
Inflation. Within the Target

Inflation was **4.7%** YoY in December 2019, down from **5.6%** YoY in December 2018:

- Appreciation of real Belarusian ruble exchange rate
- Food prices growth deceleration due to higher harvest
- Consumer activity slowdown
- Weak external inflation
+ Fuel prices appreciation
+ Wages dynamics

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

The trade balance deficit expansion:

- Weak external demand
- The strengthening of the Belarusian ruble’s real effective exchange rate
- Temporal suspension of the export of Belarusian oil products
- The Deterioration of the terms of trade in energy

Services Trade in surplus:

+ Growing exports of telecommunications, computer and information services

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

The surplus of the Republic’s budget in 2019 — **2.4% of GDP** (3.8% of GDP in 2018):

- 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 (33.7% of GDP) remains within the safe level (45% of GDP)

**The Republic’s Budget**
*(cumulative for the period)*
Monetary Sector. Reduction of the Refinancing Rate

Refinancing rate in 2019 reduced by 1 pp to 9% against the background of inflation risks reduction in the 2nd half of the year (decrease of inflation in Russia, slowing domestic consumer activity)

The interest rates had a weak restraining effect on economic activity in 2019

De-dollarization trends continues

Real appreciation of Belarusian ruble

+ Increasing 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. Decrease of Economic Activity in 2020

GDP growth is expected to decrease by 3.3\% in 2020:

- Output decline in the oil refining and chemical industry
- Consequences of the COVID-19 pandemic (*weak external and domestic demand, disruption of value chains*)

The economic growth rate is expected to be respectively 1.8\% and 2.2\% in 2020 and 2021:

+ Stabilization of global economic activity (*recovery of external demand*)
+ Stimulative monetary policy
- Tighter fiscal policy

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

Inflation to be **5.5% at the end of 2020**

- Belarusian ruble depreciation
- Inflation acceleration in Russia
- Disinflationary impact of domestic demand

Slowdown of inflation in 2021

- Disinflationary impact of domestic demand
- Decrease of exchange rate undervaluation

Source: authors’ calculations
Forecast. Interest Rates Reduction Potential

- There is a potential for nominal interbank loans rate reduction to 7.0–8.0% in the medium term, which will be facilitated by a gradual decrease of inflation and inflation expectations.

- Belarusian Ruble to weaken in 2020 due to reduction of foreign exchange earning by major exporters. In 2021–2022 – moderate decrease in the value of the national currency within the equilibrium path.

Source: authors’ calculations
## Forecast. Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
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<tbody>
<tr>
<td><strong>GDP in constant prices</strong></td>
<td>2.5</td>
<td>3.1</td>
<td>1.2</td>
<td>-3.3</td>
<td>1.8</td>
<td>2.2</td>
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<td>(% growth YoY)</td>
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<td><strong>Consumer price index</strong></td>
<td>4.6</td>
<td>5.6</td>
<td>4.7</td>
<td>5.5</td>
<td>3.6</td>
<td>4.0</td>
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<tr>
<td>(% growth in December to previous year’s December)</td>
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<td><strong>Nominal rate on overnight IBL in national currency</strong></td>
<td>9.5</td>
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<tr>
<td>(the year’s average % per annum)</td>
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<tr>
<td><strong>Nominal Belarussian Ruble to U.S. Dollar Exchange Rate, BYN per USD</strong></td>
<td>1.93</td>
<td>2.04</td>
<td>2.09</td>
<td>2.39</td>
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<td>(the year’s average)</td>
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Source: authors’ calculations