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INFORMATION DISCLOSURE

This Review includes a detailed description of the current internal and external macroeconomic setting and an agreed set of forecasts that takes into account the interrelationships between the economies of the EDB operating region and the external sector.

The forecasts of the main macroeconomic indicators were prepared by the EDB jointly with the EEC using an integrated system of models based on a multi-country structural dynamic macroeconomic general equilibrium model. More detailed information about the structure of the integrated system of models, its main components, and its use for analysis of the macroeconomic situation and forecasting is contained in a joint EDB and EEC report entitled “Forecasting System for the Eurasian Economic Union”.

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LIST OF ABBREVIATIONS

BelNP – Belarusian Nuclear Power Plant
Belstat – National Statistical Committee of the Republic of Belarus
CPI – Consumer Price Index
EAEU – Eurasian Economic Union
ECB – European Central Bank
EDB – Eurasian Development Bank
EEC – Eurasian Economic Commission
GDP – Gross Domestic Product
IBL – Interbank Loans Market
IRA – International Reserve Assets
IT – Information Technology
NFO – Non-Financial Organization
pp – percentage point
RB – Republic of Belarus
RB MF – Ministry of Finance of the Republic of Belarus
RB NB – National Bank of the Republic of Belarus
RF – Russian Federation
U.S. or USA – United States of America
VAT – Value Added Tax
% – per cent
% YoY – Year-on-Year Growth Rate
SUMMARY

In the first half of 2019, economic activity in the Republic of Belarus slowed down as expected as its recovery phase finished. The ingress of poor quality oil into the Druzhba oil pipeline and a slowdown of Belarus’ main trade partner economies, reflected in a weak foreign trade performance, were additional constraints on output. The information technology sector continued to support the economy.

The EDB projects economic activity in the Republic to increase somewhat as agricultural output trends improve. Over 2019, Belarusian GDP is expected to grow by 1.2%, which is 0.3 pp less than our previous forecast. This deterioration mainly reflects the effects of ‘dirty’ oil and weaker than expected external demand. In 2020–2021, we expect some 1.5% growth of the Belarusian economy. The decrease from our April estimate of 1.5–2% results from the downward revision to the global economic activity trajectory.

Inflation accelerated in the first half of 2019. The low harvest of 2018 was still affecting food prices. The growth of real wages outrunning the change in their equilibrium level was an additional factor. The EDB projects the growth of the consumer price index to slow down to 5.1% YoY by the end of 2019 as the new grain harvest is reaped and inflation decreases in the main trade partner countries. In the medium term, we expect inflation to keep near the National Bank’s targets.

The decrease in the risk of inflation deviating from the target in 2019 was a key factor that led the National Bank to reduce its refinancing rate by 0.5 pp, to 9.5%, in August. We expect the financial resources in the interbank and loan/deposit markets to decline in price accordingly in the second half of 2019. With inflation slowing down, such interest rate trends will remain almost neutral in terms of impact on economic activity, which is required for the maintenance of price stability.

The Belarusian ruble’s exchange rate strengthened against the basket of foreign countries in the first semester, as net supply increased in the domestic foreign exchange market. In the medium term, the EDB expects the national currency to gradually weaken as inflation remains higher in Belarus than in its main trade partner countries.

The EDB considers Belarusian fiscal policy to have had a neutral effect on economic activity in 1H2019. The State budget’s surplus was 3.3% of GDP, versus 4.8% in the first half of 2018. It mainly shrank as oil revenues fell due to a decrease in world oil prices and customs duties. In the medium term, the fiscal policy’s effect on economic activity will remain neutral.
STATE OF THE ECONOMY

Economic Activity

The country’s GDP growth rate was 0.9% YoY in January to June 2019 (vs. 2.2% YoY and 1.3% YoY in 3Q and 4Q2018, respectively). The deterioration in net exports of goods and services was the key factor behind the slowdown of economic growth in the first half of this year. The economy was supported by a recovery in investment activity after it declined in 4Q2018 and by information services.

Output trends were uneven in the first semester, largely shaped by external factors. In 1Q2019 GDP growth was 1.3% YoY and kept near its equilibrium values. In 2Q2019 the index slowed down to 0.5% YoY, mainly due to the ingress of poor quality Russian oil into the Druzhba pipeline. We estimate a negative output gap to have emerged in the 2nd quarter as a result.

Almost Half of GDP Growth Generated by IT Sector

In industry breakdown, we estimate the IT sector to have been the main contributor to GDP growth in the first half of 2019 (some 0.4 pp). In recent years information technology has been developing dynamically in Belarus, particularly because the Government is taking steps to facilitate it. On the
other hand, the sector’s share of GDP remains modest (some 6%), so it is most unlikely to become the sole booster of the Belarusian economy in the medium term.

Transport Detracts from Economic Growth

Transportation and storage activities were a significant negative contributor to economic growth in January to June 2019. This is attributable to the decline of railway and pipeline freight turnover as transit of Russian oil and exports of Belarusian oil products were suspended after the ingress of contaminated oil into the Druzhba pipeline. The contribution of industrial and trade sectors to GDP growth also declined markedly in the first half of this year, as the recovery growth period came to an end.

Consumer Demand Growth Slows Down

Consumer activity slowed down in the first half of 2019. Retail sales grew by 5.5% YoY in January to June 2019 (vs. 7.4% YoY and 7.8% YoY in 3Q and 4Q2018, respectively). The consumer market situation was shaped by a gradual decrease in households’ real disposable incomes and consumer lending. The overall retail sales data points to the depletion of households’ deferred demand that was pent up from 2015–2016.

Investment Activity Expands

Investment in fixed capital recovered in January to June 2019 after a decline in late 2018. The indicator’s rate of growth was 5% YoY in the first semester (after a 0.4% decline in 4Q2018). The increase in capital investment was largely due to major infrastructural facilities beginning operation, including the second runway at the Minsk National Airport, highways, and ancillary BeINPP structures. The import intensity of investment in fixed assets in use remained high, at 61.4%, in the first semester (vs. 66.5% in January to June 2018).
The dependence of investment on foreign imports restricts investment activity’s contribution to economic growth and keeps the economy exposed to external shocks.

Industrial Growth Slows Down

Industrial output showed near-zero change in the first half of this year, with a mere 0.1% increase year-on-year. Output was constrained by a decline of external demand growth as global economic activity slowed down, the Belarusian ruble’s real exchange rate strengthened, and domestic consumer demand cooled off gradually. In 2Q2019 the arrival of contaminated oil at Belarusian oil refineries was an additional negative factor that caused a suspension of operations. On the other hand, industrial organizations’ inventory stocks increased markedly as of 1 July 2019 (to 63.4% of average monthly output, from 59.7% a year before), which may worsen their financial performance.

Agricultural Output Begins Recovery

Agricultural output increased by 0.2% YoY in the first half of 2019. The sector’s growth has been recovering since June, mainly due to the weather factor. Real-time July 2019 data show a considerable increase in the gross grain yield compared to last year’s.

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1 Bad weather considerably reduced the yield of staple crops in 2018, resulting in a low comparison base of June to December 2018.

2 The yield of grains and pulses (excluding corn) was 33 dt/ha as of 1 August 2019, up from 28.6 dt/ha a year before.
Foreign trade operations continued to detract from economic growth, as indicated by the physical goods export and import volumes. Physical exports of Belarusian products abroad decreased by 3.2% YoY in January to June 2019 (vs. a 0.5% YoY decline in 4Q2018). The strengthening of the Belarusian ruble’s real effective exchange rate and a slowdown of external demand had a negative impact on export trends. Physical goods imports increased by 0.3% YoY in January to June 2019 (vs. 0.9% YoY growth in 4Q2019), supported by a recovery in investment activity.

**Figure 4. Production Activity**  
*period’s growth rate year-on-year*

**Source:** Belstat

**Figure 5. Foreign Trade Volumes**  
*period’s growth rate year-on-year*

**Source:** Belstat
The Labor Market

**Growth of Household Incomes Slows Down**

Households’ real disposable incomes grew by 7% YoY in the first half of 2019 (vs. 7.9% over 2018). Their change was caused by a slowdown of real wages growth to 7.6% YoY (vs. 12.6% in 2018) amid low economic growth and increasing inflation. We estimate real wages to be outrunning their equilibrium growth rate, which puts pressure on consumer prices and poses inflationary risks in the medium term.

**Unemployment Decreases**

Unemployment decreased to 4.4% in the first half of the year, from 4.8% at the end of 2018. Workforce shrinkage, observed since 2011 amid adverse demographic trends, continued (by 0.3% YoY in June 2019). The number of terminations still tended to exceed the number of hires.

**Figure 6. Labor Market Indicators**

(period’s growth rate year-on-year)

[Graph showing real disposable income and real wages growth rate]

**Source:** Belstat

Inflation

**Inflation Still Too High**

The CPI growth rate was 5.7% YoY in June 2019, up from 5.6% YoY in December 2018. Inflation in January to June 2019 was above the target of not more than 5% at the end of 2019, which we consider to have resulted from the low harvest of 2018, rise of fuel prices in the domestic market, and temporary acceleration of price growth in Russia.
Food prices grew by 6.1% YoY in June 2019 after 5.7% YoY in December 2018. Food inflation in the first half of the year increased in the aftermath of a low harvest of staple crops in 2018. On the other hand, that factor’s impact petered out in 2Q2019: we estimate food inflation to have contributed some 0.2 pp to the overall CPI growth rate (seasonally adjusted) in 2Q2019, down from some 0.8 pp in 4Q2018–1Q2019.

Prices of non-food goods appreciated by 4.2% YoY in June 2019 (vs. 3.8% YoY in December 2018). We estimate inflation in this segment to have been mainly accelerated by real wages growth outrunning its equilibrium rate and by fuel appreciation. Domestic economic activity put no pressure on inflation in the first half of this year, as indicated by the negative output gap and a slowdown of consumer demand.

Service prices grew by 6.9% YoY in June 2019 after 8.1% YoY growth in December 2018. The slowdown mainly resulted from less appreciation of transport and educational services in the first half of this year compared to the same period last year. Despite the slowdown, inflation in this segment is still outrunning the appreciation of other components in the consumer basket.
According to the National Bank, the level of inflation expected by the population in the following twelve months was 13.1% in August 2019, 1.4 pp higher than in August 2018. Inflationary expectations are probably still being driven up by relatively high growth of food and fuel prices. As a result, the attainment of the main objective of monetary policy in the longer term, namely price stability, will largely depend on the success of measures being taken to strengthen public confidence in the National Bank of Belarus.

The deficit in the current account of the balance of payments was 2.7% of GDP in January to June 2019, virtually the same as in the same period last year (2.6% of GDP). The expansion of the trade balance deficit was offset by the increasing surplus of trade in services and improvement of the investment income account. The volume of transfers from abroad to the public sector of Belarus decreased in the first semester (by USD 123 million versus January to June 2018), which may be attributable to the reduction of income from the Russian State budget under oil and gas arrangements, as the tax maneuver is implemented in Russia and commodity prices decline.
The trade balance deficit was USD 1.5 billion in January to June 2019, more than USD 0.2 billion higher than in the same period of 2018. A key factor behind the change in the foreign trade balance was the growth of non-energy imports in monetary terms (by 4.3% YoY in January to June 2019) with near-zero change in non-energy exports (0.3% YoY growth). The trade balance deteriorated in most categories of non-energy products, possibly on account of the strengthening of the Belarusian ruble’s real effective exchange rate and the global economic slowdown.

External turnover of mineral products decreased considerably in the first semester. Energy imports and exports alike decreased (by 17.1% YoY and 19.5% YoY, respectively). Foreign trade in commodities was affected by the reduction in duty-free supplies of Russian oil products to Belarus, suspension of the export of Belarusian oil and oil products due to the contamination of the Druzhba pipeline, the implementation of the tax maneuver in the Russian petroleum industry, and the decrease of world commodity prices.
Notwithstanding the deterioration of foreign trade, the positive balance of goods and services export and import payments and non-financial enterprises' and households' incomes and transfers increased to USD 914 million in January to June 2019, from USD 11 million a year before. Such a change mainly results from a decrease in the payments for goods supplied to the Republic, which must have increased Belarusian organizations’ debt to foreign counterparties (by 7.7% YoY as of 1 July 2019).

Mutual trade within the EAEU became more significant for the Republic of Belarus in the first half of this year. The share of Belarusian goods exports to countries of the Union was 45.4% in 2Q2019, 3.1 pp more than in 4Q2018. Such trends are due to a decrease in supplies to third countries, largely on account of the fall in mineral product exports.

Foreign trade in services continues to provide Belarus with foreign exchange revenues. In the first half of the current year its surplus reached USD 1.8 billion (up from USD 1.7 billion a year before). The positive movement was mainly shaped by growing exports of telecommunications, computer and information services (growth of 23.1% YoY or USD 0.2 billion) amid active development of the national IT sector.

Net inflow of capital into the national economy increased in the first half of 2019, mainly on account of revenues derived from the placement of USD 0.5 billion’s worth of Eurobonds by the Development Bank of the Republic of Belarus. According to the National Bank, net inflow of foreign direct investment to the country in the first half of the year was at the level of the same period in 2018, USD 1.1 billion.

The international reserve assets of the Republic of Belarus amounted to USD 8.3 billion as of 1 July 2019, over USD 1 billion more than at the beginning of the year. The growth of gold and foreign exchange reserves was promoted.

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<td>Net inflow of capital into the national economy increased in the first half of 2019, mainly on account of revenues derived from the placement of USD 0.5 billion’s worth of Eurobonds by the Development Bank of the Republic of Belarus. According to the National Bank, net inflow of foreign direct investment to the country in the first half of the year was at the level of the same period in 2018, USD 1.1 billion.</td>
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**Source:** EEC, calculations by the authors

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**Belarusian Enterprises’ Foreign Debt Increases**

Faster Growth in Goods Exports to EAEU Countries

Service Trade in Surplus

**Figure 11. Belarusian Exported Goods**

*period’s growth rate year-on-year*

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The international reserve assets of the Republic of Belarus amounted to USD 8.3 billion as of 1 July 2019, over USD 1 billion more than at the beginning of the year. The growth of gold and foreign exchange reserves was promoted.
by the National Bank’s increased purchases of foreign currency at trading sessions as net supply in the domestic forex market expanded. We estimate the country’s international reserves to cover 2.4 months’ imports of goods and services as of 1 July 2019, up from 2.1 months’ at the beginning of the year. Their accumulation forms a certain safety buffer for the Belarusian economy in case it is hit by external shocks.

Figure 12. Belarus’ International Reserve Assets

In January to June 2019, the surplus of the Republic’s budget was 2 billion rubles (3.3% of GDP), down from 2.7 billion rubles (4.8% of GDP) in the same period last year. Its contraction reflected the decrease of export customs duties on oil products (by 37.1% YoY, or 0.4 billion rubles) and non-repayable receipts from foreign States (by 24.2% YoY, or 0.3 billion rubles). The said indicators’ downward movement in the first half of this year is attributable to falling exports of Belarusian oil products, decreasing hydrocarbon prices in the world market, and the tax maneuver implemented in Russia. We estimate the overall impact of fiscal policy on the first semester’s economic activity in the country as close to neutral.

The public debt of the Republic of Belarus as at 1 July 2019 was 43.1 billion rubles (35.1% of GDP), 2.3 billion rubles (0.3% of GDP) less than at the beginning of the year. The fall of the debt burden is due to the decrease in the Republic’s foreign liabilities by USD 0.2 billion, mainly on account of the repayment of debt to Chinese banks. Domestic public debt increased by 0.1 billion rubles as Government foreign currency bonds were placed. We also consider the strengthening of the BYN to USD exchange rate to be an important factor behind the first semester’s decrease of the BYN equivalent of public debt.
In the first half of 2019, Standard & Poor’s and Fitch confirmed Belarus’ sovereign credit ratings at B with a ‘stable’ outlook. This was brought about by a continued conservative fiscal policy and macroeconomic stability in the country. On the other hand, debt sustainability risks remain in the Republic, mainly due to large volumes of forthcoming payments on Belarus’ liabilities (some USD 3.5 billion annually in 2020–2023).

The refinancing rate remained unchanged, at 10%, in the first semester. It was kept up by the increase of inflationary risks in late 2018 and early 2019 resulting from wages trends and the temporary acceleration of price growth.
Interest Rates Near Neutral Levels

The interbank loans rate continued to fluctuate within the upper half of the National Bank’s interest rate range in January to June 2019. According to our calculations, the spread on the refinancing rate was some 0.4 pp. We generally assess the existing level of the interbank loans rate as near-neutral.

Nominal interest rates on the loan and deposit market increased in the first half of this year, both in the corporate and retail segments. The indicators may have been affected by accelerated inflation at the beginning of the year and by the National Bank’s changed approach to interest rate regulation.

Lending Increases on Account of Short-term Loans

Bank lending fluctuated near last year’s levels in January to June 2019. The rate of growth of loans to non-financial organizations and individuals was 12.2% YoY as of 1 July 2019 (vs. 12.7% over 2018). In 2Q2019, lending to non-financial organizations began to recover. Increasing activity in this segment is mainly on account of a growing volume of short-term loans in both rubles and foreign currency (by 23.5% YoY and 16.4% YoY, respectively, as of 1 July 2019), mainly to public sector enterprises (by 40.3% YoY and

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3 Since 1 March 2019, the National Bank has switched to using a standard risk value, calculated from the average interest rates on financial instruments in the loan and deposit markets from banks of systemic importance. Any banks that charge/pay interest rates above the standard risk level are subjected to tighter regulatory requirements. The pre-existing interest rate cap recommendations and the linkage of the prudential measures to the rates on permanent bank liquidity regulation instruments were cancelled in this connection.
25.4% YoY, respectively). This trend in lending to non-financial organizations may be indicative of borrowed resources being used to maintain working capital rather than fund long-term investment.

Individuals’ borrowing activity slowed down somewhat in the first half of this year (23.7% YoY growth as of 1 July 2019 after 28.4% in all of 2018). Consumer lending growth is still tending to decelerate. Real estate funding with borrowed resources recovered in 2Q2019, assisted by the lifting of temporary restrictions on the provision of some types of housing loans by major Belarusian banks.

The dollarization level of the financial sector continued to decrease in the first half of the current year. The share of foreign currency loans to businesses among all bank loans to legal entities was 62.8% as of 1 July 2019, 1.7 pp lower than a year before. The dollarization of bank deposits decreased by 1.8 pp, to 63.8%, over the same period. While decreasing, the level of dollarization in Belarus remains one of the highest in the region, which limits the effectiveness of monetary policy and leaves the real sector of the economy exposed to foreign exchange risks.

Both individuals and businesses sold USD 451 million net in January to June 2019, USD 132 million more than in the same period last year. Such trends in the forex market result from changed conduct by legal entities that acted as net sellers of foreign exchange in the first semester, for the first time since 2015. We assess the increasing surplus of goods and services export and import payments to be a key factor. The expansion of short-term foreign currency lending also depressed demand for foreign exchange.
Individuals cut their net supply by USD 475 million as they increased foreign currency purchases. The indicator was shaped by households’ increasing incomes and the exhaustion of deferred consumer demand.

**Figure 17. Belarusian Ruble Exchange Rate**
(period’s growth rate year-on-year, + = ruble strengthening)

The Belarusian ruble has strengthened against major currencies since the beginning of this year. The basket of foreign currencies depreciated by 0.9% in June 2019 compared to December 2018. The exchange rate was primarily determined by net supply in the domestic foreign exchange market.

The real effective Belarusian ruble exchange rate continued to strengthen in the first half of 2019. The indicator’s change was attributable to nominal exchange rate movements and higher inflation in Belarus than in her main trade partner countries. We estimate this to have made the real effective exchange rate more overvalued in January to June 2019. That reduced the external sector’s inflationary pressure but on the other hand made Belarusian producers less price-competitive.
ECONOMIC OUTLOOK

Background

Economic activity in Belarus’ main trade partner countries decelerated in the first half of this year. The decrease of growth in the Eurozone is largely attributable to the negative effect of world trade tensions on net exports and investment. In Russia, the GDP growth rate decreased in the first half of 2019 amid a tightened fiscal policy, with the VAT rate increased and the budget’s investment expenses temporarily reduced. The global economic slowdown also had a negative effect on the Russian Federation’s foreign trade operations in January to June of the current year.

The projection’s base scenario assumes that global trade tensions persist at their level prevailing in September 2019, with no protectionist measures envisaged (besides those announced). In this situation, the increasingly uncertain outlook for the global economy will keep hindering investment activity in the Eurozone countries in the medium term. Throughout the projection horizon, monetary conditions will remain stimulative, which will manifest itself in a slow recovery of the Eurozone countries’ aggregated GDP growth rate in 2020–2021.

In Russia, the implementation of the national projects is expected to accelerate from the second half of this year, which will lead to a gradual increase of economic activity. The economy will be additionally supported by the easing of monetary policy after the Bank of Russia reduced its key rate in June to September. We project this to result in some 2% annual economic growth in Russia in 2020–2021.

External Demand for Belarusian Exports Projected to be Limited in Medium Term

The external sector’s inflationary pressure on the Belarusian economy is expected to be low. The projection’s base scenario assumes a gradual decrease in oil prices relative to their average level of 2019 as world demand growth slows down. Russian inflation is assumed to temporarily slow down below its target level by the end of the current year and to gradually recover to 4% in 2020–2021. Low and inertial expectations will continue to restrict price growth in the Eurozone, so we project inflation below the ECB target (close to but lower than 2%) in 2019–2021.
Domestic Fiscal Policy to Be Neutral

The impact of domestic fiscal policy on economic growth is projected to be close to neutral in the medium term. The projection's base scenario assumes 75% of public debt repayments to be refinanced throughout the time horizon and the continued existence of the current fiscal rule whereby revenues from oil export duties are used to make payments on the country’s debt.

The projection takes into account the salary rise in the State budget-funded sector after the Grade 1 salary rate was raised on 1 September 2019. Household income stimulation measures will support consumer activity in the short term but may aggravate the risks of increased and persistent inflation. In 2020–2021, wages growth is expected to gradually slow down and wages should approach their equilibrium level.

Monetary policy will remain focused on the attainment of the inflation target. The base scenario assumes an inflation target of 5% in 2019–2020 and 4% from 2021.

Table 1. Forecast Key Foreign Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Average annual Urals oil price (USD per barrel)</th>
<th>Russia’s real GDP growth rate, %</th>
<th>Euro Zone real GDP growth rate, %</th>
<th>Inflation in Russia, % (at end of year)</th>
<th>Inflation in the Euro Zone, % (at end of year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>63.6</td>
<td>1.1</td>
<td>1.1</td>
<td>3.5</td>
<td>0.9</td>
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<tr>
<td>2020</td>
<td>60.7</td>
<td>1.8</td>
<td>1.3</td>
<td>4.0</td>
<td>1.2</td>
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<td>2021</td>
<td>58.9</td>
<td>2.0</td>
<td>1.5</td>
<td>4.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: calculations by the authors, EEC

Economic Activity

Economic Activity to Recover in Second Half of 2019

The economic growth rate is expected to increase to 1–1.5% YoY in the second half of this year, which will result in the closure of the negative output gap by the year’s end. The improvement of agricultural output after the sector’s decline in 2018 will be the main factor behind the recovery of economic activity. Consumer demand will be temporarily supported by the salary rise in the State budget-funded sector. Investment activity may increase by the end of the year as major projects are implemented (construction of the BelNPP), but its contribution to economic growth will be limited due to high import intensity. Foreign trade operations will continue to hinder output trends, particularly due to the effect of the strengthening of the Belarusian ruble’s real effective exchange rate.
The economic growth rate is expected to accelerate to 1.5% YoY in 2020–2021. The key factor will be the recovery of Belarusian exports as the national currency weakens and becomes less overvalued. Investment demand will be supported by the implementation of a number of major projects, including the construction of BelNPP, expansion of production capacity in the chemical industry, and modernization of transport infrastructure.

The overall 2019 GDP growth rate is estimated at 1.2%. As compared to the previous projection, our estimate was lowered by 0.3 pp to reflect the adverse effect of the contamination of the Druzhba oil pipeline and the greater than expected slowdown of external demand (mainly in Russia).

The economic growth rate is expected to accelerate to 1.5% YoY in 2020–2021. The key factor will be the recovery of Belarusian exports as the national currency weakens and becomes less overvalued. Investment demand will be supported by the implementation of a number of major projects, including the construction of BelNPP, expansion of production capacity in the chemical industry, and modernization of transport infrastructure.

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*Figure 18.*

**Real GDP**

(period’s growth rate year-on-year)

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*Figure 19.*

**Output Gap**

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**GDP to Be Near-Potential in 2020–2021**

The economic growth rate is expected to accelerate to 1.5% YoY in 2020–2021. The key factor will be the recovery of Belarusian exports as the national currency weakens and becomes less overvalued. Investment demand will be supported by the implementation of a number of major projects, including the construction of BelNPP, expansion of production capacity in the chemical industry, and modernization of transport infrastructure.

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*Here and elsewhere the chart ranges correspond to the 10%, 50% and 75% confidence intervals.

Inflation is projected to slow down in the second half of this year. The new grain harvest reaped in 2019 will have an effect on food price trends and cause food inflation growth to gradually decelerate. Disinflationary influence is expected from the external sector, mainly as inflation decreases in Russia. Wage trends will continue to put some pressure on prices. In this connection we expect 2019 inflation to be 5.1%, which is near the National Bank’s target (not more than 5% YoY in December 2019).

Compared to the previous projection, our 2019 inflation estimate has been reduced by 0.6 pp. The revision is due to both weak economic activity resulting from lower than expected economic growth, and a smaller contribution from imported inflation, with the Belarusian ruble being stronger and price growth decelerating sharply in Russia.

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Russian Tax Maneuver Has Uncertain Consequences for Belarusian Economy

It is still uncertain whether and how Belarus will be compensated for the losses from the implementation of the tax maneuver in Russia. The tax maneuver leads to an increase in the oil import price for Belarus while lowering customs duties on oil products that the country exports. According to our calculations, the fiscal reserves accumulated are sufficient to compensate for the shortfall in the State budget’s income in 2020, but additional fiscal consolidation may be required later on. This may result in a slowdown of economic growth to 0.5–1% in the long run.

Risk of External Environment Deteriorating

Recent months have seen a global economic recession becoming much more probable against a background of increased trade protectionism. The materializing of this adverse scenario will affect Belarusian economic growth via the foreign trade channel, for the Belarusian economy is quite open.
In 2020–2021, inflation is projected to fluctuate near the National Bank’s targets. The impact of economic activity is expected to be near-neutral. Wages’ inflationary pressure is projected to peter out in the second half of 2020 as their growth decelerates.

The mid-term risks remain weighted towards the pro-inflationary side. The population’s expectations, sensitive to price fluctuations of individual goods, stay unanchored. There remains a probability of accelerated fuel price growth in the domestic market as imported Russian oil appreciates. There is also a risk of wages rising at a higher rate than assumed in the projection’s base scenario.

The lowering of the refinancing rate by 0.5 pp to 9.5% in August 2019 will cause the interbank loans rate to decrease accordingly in the second half of this year. We expect it to fluctuate in the upper half of the National Bank’s interest rate range, around 10%, in July to December 2019. After the short-term money market rates, the loan and deposit market’s resources are projected to decline accordingly. With inflation slowing down, we expect such interest rate trends to continue to exercise a near-neutral effect on economic activity, which is required for the maintenance of price stability and for enhancing confidence in the monetary policy being pursued.

In the medium term, there is a potential for the interbank loans rate to lower to 9–9.5%. The decrease in the nominal rate will be facilitated by a gradual
decrease in inflation. On the other hand, there remains a risk of the rate’s neutral level rising in the long run as the risk premium increases if Belarus is not compensated for its losses from the tax maneuver.

**Figure 21. IBC rate (the period’s average)**

Belarusian Ruble Tending to Weaken

In the second half of this year, the Belarusian ruble is expected to gradually weaken against the major currencies as net supply decreases in the domestic foreign exchange market. This trend will continue in the medium term as well, for Belarusian manufacturers should remain competitive while inflation in their home country stays higher than in its main trade partner countries.

**Figure 22. Belarusian Ruble to U.S. Dollar Exchange Rate (BYN per USD)**

The main risks to the exchange rate emanate from the external sector. A considerable slowdown in the world economy is quite likely to reduce revenues from Belarusian exports and, consequently, the supply of foreign
exchange within the country. This will put pressure on the Belarusian currency’s exchange rate.

**Risk of Faster Devaluation of National Currency**

The Belarusian ruble may devalue at a higher rate if the Belarus budget is not compensated for its losses from the tax maneuver. The decrease in the long-term rate of growth of the Belarusian economy under the adverse scenario will cause the negative differential of productivity within the country and abroad to widen. In this situation, greater pricing support will be required to keep Belarusian goods competitive.

**Figure 23. Real BYN to USD Exchange Rate Gap (+ = the ruble is undervalued)**

![Real BYN to USD Exchange Rate Gap Graph](image)

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

### Key Macroeconomic Indicators of the Republic of Belarus

<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>GDP in constant prices (% 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>Consumer price index (% 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>Nominal rate on overnight IBC in national currency (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>Nominal Belarussian Ruble to U.S. Dollar Exchange Rate, BYN per USD (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
Your comments and suggestions concerning this review are welcome at: pressa@eabr.org