

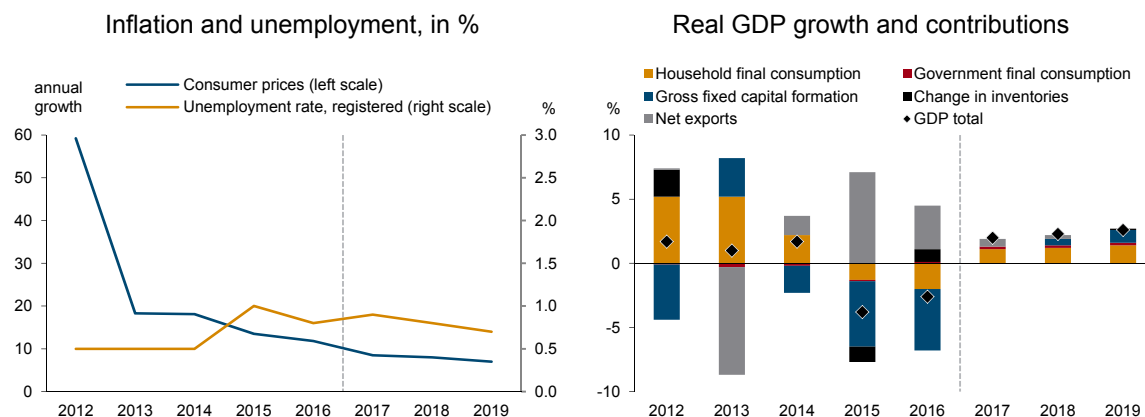


BELARUS: Recovery under way

RUMEN DOBRINSKY

GDP in Belarus grew by 1% in the first half of 2017, thanks to the economic upturn in Russia and the settling of the gas dispute between the two countries. The resumption of normal oil deliveries from Russia enabled a rapid recovery in manufacturing and exports. A tight macroeconomic policy stance contributed to a reduction of inflation in Belarus to single-digit levels. GDP growth could reach 2% for the year as a whole and may strengthen further in 2018 and 2019.

Figure 31 / Belarus: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

After two years of economic decline, GDP in Belarus grew by 1% in the first half of 2017.

Preliminary statistics indicate that aggregate output growth was strengthening further in July-August. The recovery in manufacturing was even more pronounced: gross industrial output surged by 6.1% year on year in the first six months. All indications are that the recession is over and that 2017 will be a year of positive economic growth in Belarus.

So far recovery is mostly visible on the supply side. As regards final demand, it was net exports that continued to make (similarly to 2015 and 2016) the most visible contribution to GDP growth in the first half of the year. Given the improving economic environment, domestic demand is probably also on the way to recovery but as of the moment of writing there was still no official statistics reflecting this. An indirect indication of positive shifts in personal consumption was the dynamics of real retail sales: in

January-August 2017 these grew by 1.9% compared to the same period of 2016. Matching this outturn, there was a surge in consumer credit extended by commercial banks which was another indication of improving economic sentiment.

One of the key factors behind this recovery has been the economic upturn in Russia, Belarus' main trading partner, accounting for more than 40% of Belarus' total exports. Thanks to the recovery in Russia's import demand, Belarus' exports of goods to Russia rebounded strongly in 2017, by 24.4% in current USD in the period January-July. Exports of goods to non-CIS countries also bounced back, increasing by 16.1% in the same period.

This, however, would not have happened if it were not for another important development: the settling of the gas dispute between Belarus and Russia in April. In accordance with the settlement, Belarus agreed to pay the full debt for past gas deliveries as requested by Russia but with an extended repayment period. In turn, Russia agreed to price concessions for gas deliveries in 2018 and 2019. After the new accord, oil deliveries from Russia (which were cut by almost a quarter in 2016) recovered to normal levels in 2017.

Thanks to the above two factors and the availability of underutilised capacity, manufacturing production grew by more than 6% year on year in the first half of 2017. It was the recovery in manufacturing production that made the export upturn (both to Russia and to non-CIS countries) possible as a large chunk of it depends on processed oil. The surge in manufacturing output and exports thus gave the main impetus for the overall recovery of the Belarusian economy.

According to anecdotal evidence, businesses (including big industrial firms) in Belarus are re-hiring workers and the job market has also been improving. The absence of reliable labour force statistics prevents an accurate analysis of the situation but even the statistics on registrations indicates a drop in the number of unemployed. However, most likely, employment will not return to its pre-recession levels as some companies, especially the large state-owned firms, will probably use this episode as a pretext to rationalise their staffing by cutting down some slack labour.

Belarus also made notable progress towards macroeconomic stability. The annualised rate of CPI at present stands at single digits, levels that have not been recorded often in recent years; monthly CPI inflation was even negative in July and August. The suppression of inflationary pressures was largely due to tight macroeconomic policies (especially fiscal restraint) during the last couple of years. These policies were matched by a reduction in directed credit (subsidised credit allocated to state-owned firms participating in government programmes), a channel that used to generate considerable monetary leaks. Thus between 2012 and 2017 total (both direct and indirect) public support to the agri-business sector alone was reduced by roughly USD 1 billion (from USD 1.8 billion in 2012 to USD 823 million in 2017). Reflecting these positive outcomes, the National Bank of Belarus reduced in eight consecutive moves its key intervention rate from 18% at end-2016 to 11.0% in October which was also a sign of confidence of the monetary authorities in their policy course.

Tight policies also contributed to the curbing of the current account deficit. From double-digit levels during much of the period 2009-2013 it has now fallen to low single digits, levels that seem to be manageable. The curtailing of final domestic demand, both private consumption and fixed investment (including the slashing of public investment programmes), was the key factor behind the shrinking current account deficit. The lasting strength of services exports, in particular ICT services (which were

less affected by the recession), and the steadily positive balance in the services trade also helped to reduce the overall current account deficit.

Weak domestic demand in 2015-2016 by and large offset the effect of the appreciating real exchange rate, the latter being another implication of the macroeconomic restraint. So far there have been no visible negative repercussions of the real exchange rate appreciation but if it continues, policy may need to address the risks associated with it. As another sign of confidence in the external stability, the National Bank of Belarus reduced (effective 1 October 2017) from 20% to 10% the percentage of obligatory sales by local businesses of their foreign currency earnings.

The reduction of the external imbalances alleviated Belarus' foreign borrowing requirements and the authorities raised easily the needed external finance in 2017. Following the settlement of the gas dispute, Belarus concluded a new USD 2 billion funding agreement with the Eurasian Development Bank and negotiated a new credit worth USD 700 million from the Russian government (the latter was largely intended for rolling over matured past debt to Russia). In June, Belarus also placed successfully a Eurobond emission worth USD 1.4 billion in two tranches: USD 800 million bonds with 6-year maturity and a 7.125% coupon rate and USD 600 million of 10-year bonds at 7.625%. Thanks to these cash injections, Belarus repaid fully already in April the USD 726 million debt to Gazprom stemming from the gas dispute which paved the way for the resumption of full-scale oil deliveries. Given the successful borrowing efforts in 2017, Belarus announced that it would not need additional external finance in 2018. At the same time, the 2017 borrowing operations raised the level of external public debt by some USD 2 billion to USD 15.6 billion in August, or almost 40% of the total external debt of Belarus.

At the beginning of 2017, Belarus opened negotiations with the IMF on a new funding agreement. The dialogue was difficult and the IMF insisted on the personal endorsement of the future agreement – and hence personal commitment – by President Lukashenka. Plus the IMF was pushing for a credible schedule of harsh structural reforms, including the reorganisation and restructuring of state-owned firms and the pilot privatisation of a selected few of them. However, as Belarus secured external funding from other sources, its pressing need for a new IMF agreement subsided and negotiations got stuck. Ultimately, in July the IMF pulled out of the negotiations until, in their words, there was 'a clear demonstration of high-level support for the necessary changes'.

The prospects for the Belarus economy have improved over the course of 2017 and the rate of GDP growth could reach some 2% for the year as a whole. Should the external environment remain favourable (in particular, should the Russian economic upturn continue) the recovery in Belarus may strengthen in 2018 and 2019, with GDP growth in the range of 2½-3% p.a. supported by both recuperating domestic demand and a continuing export revival. It is unlikely, however, that GDP growth will return to the levels (high single digits) seen in the past, as these were only achieved thanks to unbalanced and destabilising demand-stimulation policies.

If there is no relaxation of the macroeconomic stance, disinflation should continue with inflation staying in the single-digit range. In case prudent policies are preserved, management of the external public debt in the short run would also not create problems given the external funding already secured in 2017. However, a possible easing of this stance could endanger the fragile external and internal macroeconomic stability. Hence macroeconomic risks associated with the policy course are still in place and require careful monitoring and management.

Table 6 / Belarus: Selected economic indicators

	2013	2014	2015	2016 ¹⁾	2016 January-June	2017	2017 2018 Forecast	2019	
Population, th pers., average	9,466	9,475	9,490	9,502	.	.	9,520	9,540	9,560
Gross domestic product, BYN mn, nom. ²⁾	67,069	80,579	89,910	94,321	43,737	47,642	104,300	115,200	126,500
annual change in % (real)	1.0	1.7	-3.8	-2.6	-2.5	1.1	2.0	2.3	2.6
GDP/capita (EUR at PPP) ²⁾	13,400	13,900	13,700	13,200	.	.	.	.	.
Consumption of households, BYN mn, nom. ²⁾	33,970	42,082	47,006	50,953	24,385	26,607	.	.	.
annual change in % (real)	10.9	4.3	-2.4	-3.9	-1.6	1.2	2.0	2.3	2.5
Gross fixed capital form., BYN mn, nom. ²⁾	24,941	26,772	25,763	22,585	9,908	10,253	.	.	.
annual change in % (real)	9.0	-5.7	-15.5	-16.7	-18.3	-2.2	0.0	2.0	4.0
Gross industrial production									
annual change in % (real)	-4.9	2.0	-6.6	-0.4	-1.6	6.1	5.0	4.0	4.0
Gross agricultural production									
annual change in % (real)	-4.0	3.1	-2.5	3.3	3.3	-0.8	.	.	.
Construction industry									
annual change in % (real)	4.6	-5.7	-11.3	-18.4	.	.	.	.	.
Reg. employment, th, average	4,578	4,551	4,496	4,406	4,423	4,354	4,380	4,390	4,400
annual change in %	-0.7	-0.6	-1.2	-2.0	-1.7	-1.6	-0.6	0.2	0.2
Reg. unemployed persons, th, eop	21.0	24.2	43.3	35.3	47.2	34.2	40.0	35.0	31.0
Reg. unemployment rate, in %, eop	0.5	0.5	1.0	0.8	1.1	0.8	0.9	0.8	0.7
Average monthly gross wages, BYN	506.1	605.2	671.5	722.7	699.2	767.3	790	860	930
annual change in % (real, gross)	16.4	1.3	-2.3	-3.8	-3.6	2.6	0.5	1.0	1.5
Consumer prices, % p.a.	18.3	18.1	13.5	11.8	12.4	7.0	8.5	8.0	7.0
Producer prices in industry, % p.a. ³⁾	13.6	12.8	16.8	12.0	14.0	9.2	10.5	9.0	8.0
General government budget, nat. def., % of GDP									
Revenues	39.0	37.3	41.3	41.2	42.6	42.2	39.0	39.0	39.0
Expenditures	38.8	36.1	39.9	39.7	40.9	39.0	38.0	38.0	38.0
Deficit (-) / surplus (+)	0.2	1.3	1.4	1.5	1.6	3.2	1.0	1.0	1.0
Public debt, EU-def., % of GDP	34.5	37.3	53.7	54.9	.	.	53.0	52.0	50.0
Stock of loans of non-fin.private sector, % p.a	28.8	21.1	19.4	-6.2	7.2	-11.9	.	.	.
Non-performing loans (NPL), in %, eop	4.4	4.4	6.8	12.8	13.4	13.7	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	23.5	20.0	25.0	18.0	22.0	13.0	11.0	10.0	9.0
Current account, EUR mn ⁵⁾	-5,737	-4,057	-1,669	-1,523	-1,248	-571	-1,200	-1,400	-1,500
Current account, % of GDP ⁵⁾	-10.1	-6.7	-3.3	-3.6	-6.3	-2.4	-2.6	-2.9	-3.0
Exports of goods, BOP, EUR mn ⁵⁾	27,701	27,492	23,854	20,988	9,920	12,319	23,700	25,400	26,900
annual change in %	-21.7	-0.8	-13.2	-12.0	-17.8	24.2	12.9	7.2	5.9
Imports of goods, BOP, EUR mn ⁵⁾	31,183	29,537	25,807	23,270	10,957	13,260	25,300	27,100	28,600
annual change in %	-10.8	-5.3	-12.6	-9.8	-11.8	21.0	8.7	7.1	5.5
Exports of services, BOP, EUR mn ⁵⁾	5,690	6,115	6,048	6,194	2,785	3,253	6,300	6,500	6,800
annual change in %	16.1	7.5	-1.1	2.4	-2.7	16.8	1.7	3.2	4.6
Imports of services, BOP, EUR mn ⁵⁾	3,983	4,449	4,003	3,983	1,871	1,929	3,800	3,900	4,200
annual change in %	26.8	11.7	-10.0	-0.5	1.6	3.1	-4.6	2.6	7.7
FDI liabilities, EUR mn ⁵⁾	1,703	1,445	1,506	1,133	835	802	1,000	.	.
FDI assets, EUR mn ⁵⁾	199	57	97	112	41	12	100	.	.
Gross reserves of NB excl. gold, EUR mn ⁵⁾	3,589	2,820	2,510	3,071	2,343	4,233	.	.	.
Gross external debt, EUR mn ⁵⁾	28,807	32,982	34,996	35,930	34,504	34,119	33,400	32,600	33,400
Gross external debt, % of GDP ⁵⁾	50.8	54.1	69.4	83.8	80.5	73.6	72.0	68.0	66.0
Average exchange rate BYN/EUR	1.1834	1.3220	1.7828	2.2010	2.2210	2.0393	2.3	2.4	2.5

Note: 1 July 2016 denomination of the Belarusian rouble by 10,000. All time series in nominal and real terms as well as the exchange rates and PPP rates have been divided for statistical purposes by 10,000 to achieve the new currency BYN.

1) Preliminary. - 2) According to SNA 2008. - 3) Domestic output prices. - 4) Refinancing rate of NB. - 5) Converted from USD.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.