

## Economic Outlook for 2016: No End to the Recession in Sight

Real GDP in Belarus will decline by another 1% this year, after a decline of 3.9% in the past year. While domestic demand has fallen, net exports will have a slightly positive impact on economic developments. It is particularly interesting to observe almost perfectly synchronised economic developments in Belarus and in Russia during the crisis.

Although further declines in the rate of inflation and significant reductions in the current account deficit are positive signals, significant external risks remain. These are largely a product of external debt, which has risen sharply. Each year, Belarus spends USD 3-4 bn to service its debt. This represents a major challenge, given that its foreign exchange reserves currently amount to around USD 4 bn.

For this reason, efforts to secure new loans to re-finance the debt remain a top priority. A new IMF programme would help in this respect and would, more importantly, support efforts to ensure macroeconomic stability and structural reforms that promote growth.

### 2015 in review

According to official estimates, the real GDP of Belarus shrank by 3.9% in 2015 compared to 2014. The reasons for this, and in particular the close economic and financial ties to Russia in the context of the ongoing regional crisis, have been detailed frequently. The fact that the corresponding decline in Russian GDP of 3.7% was almost identical is particularly interesting.

On the supply side, it is important to note the decline in industrial production (-6.6%), which can be explained in particular by the difficult conditions in export markets. Exports of goods and services from January to November 2015 have decreased by nearly a quarter compared to the same period the year before, a decline that can, in this case, be primarily attributed to price effects. By physical volume, exports actually saw a slight increase. The fact that imports declined to an even greater extent led to a further reduction of the existing trade deficit. The current account deficit also fell significantly since Belarus, for the first time last year, was not required to pay export duties on oil products to Russia. For this reason, the current account deficit was around 2% of GDP after the first three quarters of 2015, compared to a total current account deficit of 6.7% in the previous year.

### Outlook for 2016

The following table provides an overview of the development of key economic indicators and our outlook for this year.

Selected economic indicators 2014-2016

	2014	2015*	2016*
Real GDP, % yoy	1.6	-3.9	-1.0
General government balance, % of GDP <sup>1)</sup>	1.1	3.1	1.7
CPI, % yoy (average)	18.1	13.5	10.3
Current account balance, % of GDP	-6.7	-2.6	-1.2
Gross external debt, % of GDP <sup>2)</sup>	52.6	75.6	86.9

Source: National Statistical Committee, National Bank of Belarus, \*GET forecasts

Note: <sup>1)</sup> Including Social Security Fund, <sup>2)</sup> Gross external debt at the end of the period in relation to annual GDP

### Real economy / GDP

The real economy will remain under pressure in 2016 and will remain in recession for a second consecutive year. We expect a further decline in real GDP of 1% this year over last year. Here again, it is astounding to see how closely developments in Belarus are tied to those in Russia. The IMF predicts a decline in GDP of 1% in Russia in 2016.

On the demand side, investment and consumption, i.e. domestic demand, are responsible for this negative development. Net exports, in contrast, will contribute positively to growth. In this respect, the situation is similar to that of the previous year.

### Inflation

Despite the sharp devaluation of the Belarusian ruble in the course of 2015, inflation still has not soared. On the contrary, inflation averaged 13.5% over this past year, compared to an average of 18.1% in 2014. If decisive policy-makers continue their restrictive macroeconomic policies, it is possible that inflation will gradually decline even further this year to an annual average of about 10%. After several years of double-digit inflation rates, rates in the single digits are finally in the realm of the tangible - an important objective for the National Bank in its quest for macroeconomic stability.

### Current Account

The current account deficit (estimated at 2.6% of GDP in 2015) will decline further this year, likely to only

1.2% of GDP. This gradual, multi-year decline (in 2013, the deficit was more than 10% of GDP) is a very positive development, because in the past external imbalances had been the cause of repeated currency crises.

This decline comes during a period of significant external shocks, with corresponding declines in exports and imports and thus in total foreign trade. The negative economic developments in Russia, which purchases nearly 40% of Belarusian exports, as well as the causative fall in the price of oil to levels around USD 30 per barrel must be mentioned in this respect. As a result, both exports and imports will fall in dollar terms by another 10% during this year.

#### Foreign Debt

Increasing attention has been paid to the development of the external debt in recent years. It should be noted here that this figure includes the aggregate debt of all sectors.

At the end of 2014, foreign debt amounted to 52.6% of GDP, quite not a very high figure by international standards. Primarily due to the devaluation of the Belarusian ruble, the debt ratio increased significantly to 75.6% of GDP in the course of 2015, since nominal GDP, expressed in US dollars, fell accordingly (from USD 76 billion in 2014 to USD 53 bn in 2015). The debt, which is denominated almost exclusively in foreign currency, remained relatively constant at approximately USD 40 bn. Since we expect a further decline in GDP as expressed in US dollars to USD 47 bn in 2016, the debt-to-GDP ratio will continue to rise. We forecast the value of the debt to reach 86.9% of GDP at year-end.

Thus, the timely service of the external debt remains a key challenge for policy-makers. Last year, USD 4.1 bn (7.7% of GDP) were paid in principal and interest payments (this includes domestic bonds denominated in USD that do not count as external debt). This explains the high budget surplus (3.1% of GDP) that was reserved for debt repayments. In 2016, another USD 3.3 bn (7% of GDP) will become due. It should be noted here that, as of early February 2016, foreign exchange reserves totaled about USD 4 bn.

#### **Conclusion**

The economy of Belarus will shrink again in 2016, but the decrease will be less significant than in 2015 (-1% compared to -3.9%).

The current account deficit and inflation have both decreased, in part due to the recession but also due to prudent macroeconomic policies. In all probability, this trend will continue in 2016, if no new shocks occur. The primary challenge for the government will be the debt service on external debt and on domestic

foreign currency bonds, given the low level of foreign exchange reserves.

The IMF programme currently under discussion would help the country to cope with the crisis in several ways. It would help directly to strengthen reserves and thus create more confidence. But even more importantly, it would bring imply a continuation of stabilisation policies and a progressive step towards profound structural reforms that can create the conditions for economic growth.

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#### **Note:**

A more comprehensive analysis of the topic is provided in our macroeconomic forecast "Belarusian Macroeconomic Forecast", December 2015

Download at: [www.get-belarus.de](http://www.get-belarus.de)

#### **German Economic Team Belarus**

GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the Federal Ministry for Economic Affairs and Energy (BMWi) as part of the government's TRANSFORM successor programme.

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