

Economic Outlook 2017: The third consecutive GDP decline

The prospects of the Belarusian economy for the next year do not signal an imminent turnaround: GDP will decrease the third consecutive year. Its cumulated loss compared to the level of 2014 will thus be 7.5%, which is a sign of the gravity of the situation.

Increasing external risks like the growing current account deficit and the constantly growing external indebtedness in relation to GDP are developments that have to be closely monitored and analysed.

What can and what should economic policy do in such a situation? The option to provide a monetary or a fiscal stimulus is highly limited, if the fragile macroeconomic stability is to be preserved. The political decision-makers should thus focus on structural reforms in the real and banking sector, in order to unleash new forces of growth and thus initiate a turnaround of the current economic trend.

2016 in review

In the current year, the real gross domestic product (GDP) will experience yet another contraction. However, the estimated decrease of 2.8% will be smaller than in the previous year (-3.9% in 2015).

On the supply side, the difficult external situation is negatively affecting the continuously shrinking industry. Especially the petrochemical industry faces negative consequences after the gas dispute between Russia and Belarus related to prices. As a consequence, the supply of crude oil to Belarusian refineries was reduced, which led to reduced output. Also the low prices on the global potash market had a negative impact.

Not only industry, but also the construction sector decreased as a consequence of reduced state financing. The only ray of hope comes from agriculture, which is the only sector which currently demonstrates positive growth.

On the demand side, the above mentioned decrease of public investment contributes most negatively to the decrease of GDP, even more than private consumption. In contrast to domestic demand, net exports (exports minus imports) contribute positively to growth.

Outlook for 2017

The table below gives an overview over the most important economic indicators for the period 2015-2017.

Selected macroeconomic indicators 2015-2017

	2015	2016*	2017*
Real GDP growth, % yoy	-3.9	-2.8	-0.9
Nominal GDP, USD bn	54.8	46.5	46.2
Inflation, % yoy (annual average)	13.5	11.8	10.5
Current account balance, % of GDP	-3.8	-5.7	-5.7
External debt, % of GDP	72.5	89.2	95.0

Source: Belstat, National Bank of Belarus

*GET estimation/forecast

Real sector/GDP

We expect the recession to continue in the next year, even though real GDP will decline at a slower pace of 0.9%. Thus, Belarus will experience the third year of recession in a row, with a cumulated loss in output of 7.5% compared to 2014. A fundamental change in this trend is unfortunately not in sight.

This forecast is based on the continued tense external situation. Russia, the main trade partner, will leave its recession only gradually. Additionally, domestic economic policy cannot stimulate the economy due to limited resources and the fragile financial stability.

On the demand side, the described tendencies will continue, but become weaker over time. Investment and private consumption will contribute negatively to growth, net exports positively.

Inflation

It is remarkable that the level of inflation did not change substantially over the last years, but is characterised by a high level of inertia. In the next year, annual average inflation will be slightly above 10%, which implies a minor reduction.

This moderate disinflation process is the result of a continued contractive monetary policy by the National Bank and recessionary tendencies in the real sector. That the level of inflation will still be relatively high is related to expected administrative price increases and the continued weakening of the Belarusian Ruble. This weakening will, in our opinion, occur in line with the development of inflation.

Current account

The current account deficit increased to 5.7% of GDP in 2016 (after 3.8% in 2015) and it will remain on this level in 2017. This indicates a change that brings an end to the decrease of the deficit, which had continued for several years. In 2013 the deficit amounted to more than 10% of GDP and decreased gradually ever since then.

The expected increase should be monitored closely, as a surging deficit had served as a reliable warning signal for a balance of payments crisis in the past. Even though this scenario seems less probable today, as e.g. the flexible exchange rate is a significant structural difference compared to the past, possible risks should be observed and analysed closely.

External debt

In the last years, Belarus witnessed a continuous growth of its external debt, which received increasing attention as an important external indicator of the economy in addition to the development of the current account balance and the foreign currency reserves. The continuing endeavours to conclude international financial assistance programmes (e.g. ongoing negotiations with the IMF, conclusion of a programme with the Eurasian Stability and Development Fund) are to be seen in the context of an unhindered external debt service.

An important indicator in international comparison in this context is the total external debt of a country (covering the state, enterprises and banks) in relation to its GDP. This relative reference value can easily be compared with that of other countries.

By the end of 2016 this value will increase significantly to 89.2% of GDP, after 72.5% at the end of 2015. An important reason for this development is the declining GDP in US dollars, which decreases from USD 54.8 bn to USD 46.5 bn. The external debt increase will continue in 2017 to 95.0% of GDP, although with significantly reduced speed.

Conclusion

The Belarusian economy will experience its third year of recession in the next year and a clear turnaround is still not in sight. The only positive aspect is the slowing pace of GDP decline to less than 1% in comparison to the previous year.

The negative situation should be a point of reflection for decision-makers. There is no question about the return to the stimulating policies practiced earlier that inevitably led to exchange rate crises, but lacked a positive and sustainable impact. The preservation of macroeconomic stability should remain an important goal.

Therefore, the focus should be put on the necessary structural reforms that are inevitable for the revival of growth forces. At the very core of these questions are the state-owned enterprises in the real sector, the financial situation of which has worsened during the crisis. Also state banks, which are closely related to such enterprises by giving loans to them, must be part of these reforms. The integration of international financial institutions into this reform process through an intensified technical and financial cooperation should become a top priority.

Author

Robert Kirchner, kirchner@berlin-economics.com

Note: A more comprehensive analysis of the topic is provided by our recent “Belarusian Macroeconomic Forecast” from November 2016; available at: www.get-belarus.de

German Economic Team Belarus (GET 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.

Editors

Dr Ricardo Giucci, Robert Kirchner

Contact

German Economic Team Belarus
 c/o BE Berlin Economics GmbH
 Schillerstraße 59, D-10627 Berlin
 Tel: +49 30 / 20 61 34 64 0
 Fax: +49 30 / 20 61 34 64 9
 info@get-belarus.de
 www.get-belarus.de