

Economic outlook 2018: Continued recovery

The economic development of Belarus in 2017 was better than expected. After several years of negative growth, GDP returns to positive growth, amounting to 1.7% in 2017. Under the assumption of stable world market prices for commodities and solid export demand, especially from Russia, this growth trend is to continue in 2018.

Inflation will be one-digit also in 2018, provided that the National Bank of Belarus will continue its stability oriented monetary policy.

The solution of the energy conflict with Russia, resumed payments of the Eurasian Stability and Development Fund and the issuance of Eurobonds in the amount of USD 1.4 bn in June 2017 have significantly relieved financing pressure at least in the short run.

However, growth rates as projected for 2017 and 2018 are clearly insufficient to get the economy back to the level prior to the crisis of 2014 any time soon. To reach this aim, higher and – most important – more sustainable growth rates would be necessary. In the medium and long term risks related not only to the inefficient sector of state enterprises, but also to the reduced but continued practice of directed lending and also the strained state budget impede a more optimistic outlook.

Review of 2017

For the first time after three years, GDP growth will be positive this year (1.7% yoy). Growth drivers were manufacturing, which increased by 6.6% in the first three quarters of 2017 compared to the same period of last year. Among other factors, a more stable export demand supported this development. In the period January to September, total exports increased by 20.9% yoy. However, to a large extent this can be interpreted as a catch-up effect after a low base in the previous year. Especially the recovery of the Russian economy drove the increased export demand, as Russia is the main export destination. Another positive factor was the increase and stabilisation of commodity prices.

After the oil and gas dispute with Russia had been solved, the supply of raw oil and the production of petrochemical products revived, which also contributed to increased exports.

Additionally to the export demand for commodities and petrochemical products, other industry branches are expanding, also supported by increased demand from Russia. Further growth sectors on the supply side

are transport, mining, agriculture and recently also retail trade.

For the first time after several years, real wages in the industry will increase due to the recovery. Additionally, the effective fight against inflation contributed to the increase in real wages.

However, the overall disposable household income did not increase significantly, as wages stagnated in many other sectors (education, healthcare etc.) and state transfers and pensions are under pressure. The increase in private consumption in 2017 is therefore to be interpreted more as a “one-off” effect.

Outlook for 2018

The following table provides an overview over the development of key macroeconomic indicators.

Selected economic indicators 2016-2018

	2016	2017*	2018*
Real GDP growth, % change yoy	-2.6	1.7 ¹⁾	2.0 ²⁾
Inflation, % change yoy (annual average)	11.8	8.0	7.5
Current account, % of GDP	-4.3	-5.6	-4.6
Budget deficit, % of GDP ¹⁾	-3.4	-5.6	-3.8
Gross government debt, % of GDP	53.9	58.8	56.8

Sources: IMF World Economic outlook from October 2017, Belstat, *Estimation/Forecast; ¹⁾ IMF mission statement November 2017; ²⁾ EBRD Regional Economic Prospects November 2017

Real sector / GDP

We expect the moderate growth trajectory to continue also in the next year, which will be driven mainly by a continued stable export demand from Russia and from the commodity markets.

Inflation

The reduction of inflation is an important success in economic policy, which has been achieved first of all by the National Bank. Currently, inflation stands at only 5.3% compared to last year; the annual average in 2017 will be at 8%. For the next year a further reduction to 7.5% (annual average) is projected.

Historically, inflation has never been this low in Belarus during the last 20 years. This significant decrease has enabled the National Bank to gradually bring down interest rates. The refinancing rate is currently at 11% after amounting to 25% in the beginning of last year.

Current account

As previously mentioned, the economic recovery is partly driven by exports. At the same time, the revival of the economy also leads to a slight increase in imports (e.g. of consumer goods). It can be expected that the current account deficit will widen slightly from 4.3% of GDP in the previous year to 5.6% this year. For next year, a decrease to 4.6% of GDP is projected. This development does neither seem to indicate significant external risks, which might affect the exchange rate

Public finances

The issuance of sovereign Eurobonds in June was important news for the financial markets. The total amount was US 1.4 bn, divided into two tranches with maturities of 5 and 10 years and interests rates of 7.1% and 7.6%, respectively. As a result of this emission, for the first time a private enterprise, the commercial chain Eurotorg, issued a corporate Eurobond. The bond has a maturity of 5 years and an interest rate of 8.75% and amounts to USD 350 m.

The emission of Eurobonds has secured upcoming repayments of debt, especially of the Eurobond maturing in January 2018 (USD 800 m). Due to other additional loans (in 2017 a total of USD 800 m has been disbursed by the Eurasian Stability Fond), currency reserves have increased from USD 4.9 bn in the beginning of the year to USD 7.4 bn in October.

Public debt, which includes external and internal debt, but also state guarantees, will increase from 54% of GDP (2016) to 59% this year and return to 57% in 2018. One reason for this development is the higher budget deficit of 5.6% this year, after 3.4% of GDP in the last year. In this context, however, is to be mentioned that the IMF uses a definition different from that of the national authorities, which includes several additional transactions (e.g. state guarantees for the nuclear power station, which is currently under construction). This leads to partly significant deviations from the national statistics, which indicate lower values.

Conclusion

The Belarusian economy is currently recovering, supported by a positive external environment. This year growth rates are positive for the first time since 2014.

The situation is ambiguous: On the one hand, economic policy oriented at financial stability has avoided a financial crisis, which is a fact worth being mentioned. On the other hand, growth rates of 1-2% are clearly not sufficient. To reach a higher growth trajectory, structural economic reforms are inevitable.

The prospective of a new IMF programme, which could serve as an anchor for such reforms, is not optimistic. Shortly after the successful issuance of Eurobonds, the Belarusian side declared to take a break in programme negotiations with the IMF.

Authors

Dr Alexander Knuth, knuth@berlin-economics.com
 Robert Kirchner, kirchner@berlin-economics.com

Editors

Robert Kirchner, Dr Alexander Knuth

[Subscribe / unsubscribe newsletter](#)

German Economic Team Belarus

www.get-belarus.de

GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.



BE Berlin Economics GmbH | Schillerstraße 59 | 10627 Berlin
 +49 30 / 20 61 34 64 - 0 | info@berlin-economics.com | [Impressum](#)