

## The economic situation at mid-year: persistent recession

The economic situation in Belarus is still plagued by a severe recession. After a GDP decline of almost 4% in 2015, we forecast a further decline of 2% for this year. Only by 2017 a slight growth is expected. However, this growth is likely to be moderate.

The main reason for the poor economic situation remains the regional economic and financial crisis, which still holds Belarus in its tight grip. On the supply side, all major sectors post losses, especially the construction and industrial sectors. On the demand side, a steep and long-lasting decline in investments can be observed.

From an economic perspective, any alternative to the current restrictive course would endanger the macroeconomic and financial stability. Furthermore, special attention should be paid to the situation in the banking sector.

### Review

In the past year, the real GDP of Belarus has dropped considerably by 3.9%. The regional economic and financial crisis has clearly left its marks. This trend continued with slightly reduced intensity at the beginning of 2016. For example, in the period between January and April, GDP has decreased by 3% compared to the same period in the previous year. On the supply side, the construction sector experienced the sharpest decline, followed by industrial production. On the demand side, the investment picture is also dismal – investments dropped by a whopping 24% during this period.

Economic policy has continued its restrictive course and, by and large, waived the stimulation of the economy in favour of macroeconomic and financial stability. The depreciation of the Belarusian ruble as a result of the exchange rate flexibilisation is considerable. While the exchange rate against the US-dollar was 11,000 rubles at the beginning of 2015, the exchange rate increased to 20,000 rubles at mid-year of 2016.

At the beginning of July 2016, the nominal value of the Belarusian ruble was reduced by four decimal places by the means of a currency conversion, so that the current exchange rate is now 2 rubles per US-dollar. However, we do not expect any real economic effects as a result of the currency conversion.

### Outlook for 2016-2017

The following table gives an overview of the development of the most important economic indicators for the current and the following year.

#### Selected economic indicators 2015-2017

	2015	2016*	2017*
Real GDP, % yoy	-3.9	-2.0	0.6
Nominal GDP, in USD bn	54.8	45.3	44.8
CPI, % yoy (average)	13.5	12.2	11.4
Current account balance, % of GDP	-3.8	-3.5	-4.2
Gross external debt, % of GDP	72.5	90.1	95.7

Source: National Statistical Committee, National Bank of Belarus; \*GET estimations and forecast.

### Real economy/GDP

Similar to last year, in 2016 the real GDP will experience a decline in comparison with the previous year. However, this drop is likely to be lower than in 2015; we forecast a decline of 2%. In the coming year, the economy will expand moderately, resulting in 0.6% real economic growth. A strong recovery of the economy after the crisis years 2015/2016 is thus not expected.

On the demand side, consumption and investments generate negative growth contributions, while net exports set positive impulses. For investments and net exports, the same trend will continue in the coming year, whereas consumption will move towards a neutral position.

Special attention has to be paid to the fact that Belarus' nominal GDP, when measured in US-dollars, has declined considerably over the past couple of years. The value of goods and services produced in 2014 was more than USD 76 bn, whereas the corresponding value in the current and the following year only amounts to approximately USD 45 bn. This corresponds to a decline of more than 40%.

### Inflation

A positive aspect represents the decline of the inflation rate to 12.2% and 11.4% in 2016 and 2017, respectively, compared to 13.5% in 2015 (annual average).

Therefore, the sharp depreciation of the Belarusian ruble didn't have a significant negative impact in terms of inflationary pushes.

At the same time, it must be highlighted that inflation on a double-digit level represents an economic and social problem for the decision-makers. This issue requires a continuing restrictive monetary and income policy in order to maintain macroeconomic stability.

#### Current account

The current account deficit will decrease to 3.5% of GDP this year, which corresponds to USD 1.6 bn in absolute values. This decline is a result of the tense economic situation, that reduces imports, but also of the strong depreciation of the Belarusian ruble. In the next year the deficit is expected to widen slightly to 4.2% of GDP, or USD 1.9 bn, respectively. However, this does not imply any direct external stability risks. The slight increase seems to be consistent with the forecasted gradual stabilisation and the moderated growth of the economy.

#### External debt

Over the past years, the increasing external debt has caught the attention of many observers. This implies the external debt of various stakeholders (government, companies and banks) to foreign sources, which is typically denominated in foreign currency.

An important indicator that allows for international comparison is the level of external debt as a share of GDP, which represents a relative reference value. While in 2014 this value amounted to slightly more than 50% of GDP, in 2015 this indicator started a rapid increase. In the coming year, we forecast a value of about 95%, mainly as a result of the declining GDP (in US-dollars), and less due to the absolute value of the debt. Therefore, it is not surprising that - given official currency reserves of USD 4.3 bn - the desire for new official loans (IMF, Eurasian Fund for Stability and Development) is a primary goal of the government, aimed at guaranteeing a smooth debt service.

#### Conclusion

The economy remains in recession, even though the pace of decline is lower than in the previous year. Only in 2017 economic growth is expected, however, this will be very moderate.

A positive aspect that has to be acknowledged is the correct response of the economic policy to the challenges mentioned. In order to preserve macroeconomic and financial stability, the government largely refrained from stimulating the economy. The transition

to a flexible exchange rate, which is consistent with many countries from the region, was long overdue and helps protecting the economy from external shocks.

Nonetheless, a great deal of vigilance is required. The strong depreciation caused an increase in external debt relative to GDP. Insofar, external refinancing risks still exist. The depreciation and the recession are the main problems for the balance sheet of the banking sector, which is highly dollarized and characterised by the phenomenon of directed lending.

Furthermore, it has to be mentioned that the overcoming of the crisis will not automatically result in strong economic growth. Already in 2014 - that is before the regional crisis - economic growth experienced a slowdown. Therefore, besides the question of how to overcome the current crisis, the more important question remains on the long-term growth perspectives.

---

#### Authors

Robert Kirchner, kirchner@berlin-economics.com

Note: A more comprehensive analysis of the topic is provided by the latest macroeconomic forecast "Belarusian Macroeconomic Forecast" from June 2016. Available at: [www.get-belarus.de](http://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](mailto:info@get-belarus.de)  
[www.get-belarus.de](http://www.get-belarus.de)