NEWSLETTER
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External factors dampen economic growth

Due to external factors, the economic development is once again losing momentum. The forecast for 2019 has been revised downwards once again and now stands at only 1.8%. One of the main reasons for this is the pollution of the "Druzhba" oil pipeline, which has a negative impact on the production and export of oil products. The growth forecast for 2020 remains even weaker at 1.3%.

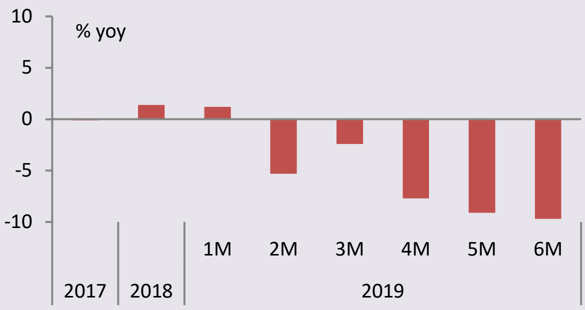
Inflation remains at a for Belarus low level of 5%, leaving room for a gradual easing of monetary policy. Accordingly, real interest rates are also declining, which is stimulating credit demand. In contrast, the fiscal situation will worsen again in 2019 and 2020: rising expenditures in the run-up to the elections and revenue losses in the wake of the Russian tax manoeuvre will have a negative impact on the budget and public debt. In addition, foreign trade is shrinking for the first time since 2016 due to interrupted crude oil supplies and various trade tensions with Russia.

Economic growth loses momentum again

The Belarusian economy has demonstrated positive growth rates in recent years; real GDP grew by 3.0% in 2018, after rising by 2.4% in 2017. However, this trend was only a cyclical upswing that peaked in 2018 already. Looking at 2019 dynamics, the economic development has clearly lost momentum: over 7M2019, GDP grew by a mere 1.3%.

The main reason for the slowdown is the negative impact of external factors on the manufacturing sector. The pollution of the "Druzhba" pipeline in April 2019 and the associated interruption in the supply of crude oil led to a 9.7% decline in the manufacturing of oil products over 6M2019.

Real production of oil products



Source: Belstat

The weak but positive economic growth in 2019 is driven primarily by domestic demand. Both private consumption and investments continued to grow, but developed less dynamically than in the previous year.

Real GDP growth for 2019 is forecast at 1.8%. This assumes, among other things, that the negative influence of external factors will slowly fade away in the further course of the year and production in the manufacturing sector will regain momentum. In 2020 – the year of the presidential elections – growth will remain restrained at 1.3%.

Selected economic indicators

	2018	2019*	2020*
Real GDP growth, % yoy	3.0	1.8	1.3
Inflation, % yoy (annual average)	4.9	5.0	5.0
Current account balance, % of GDP	-0.4	-2.1	-3.0
Budget balance, % of GDP	2.3*	-2.0	-1.7
Gross government debt, % of GDP	47.8*	51.1	52.0

*Source: IMF, World Bank, Belstat *Forecast, Estimate*

Inflation remains low and stable

After years of sustained double-digit price increases, Belarussian inflation remains at a low level for the third consecutive year in 2019. Prices are expected to rise by 5% in both 2019 and 2020, which is consistent with the inflation target (no more than 5%). The National Bank took advantage of these favourable conditions with a gradual easing of monetary policy and lowered the key interest rate by a further 50 basis points. Since April 2019, the rate has been 9.5% p.a.

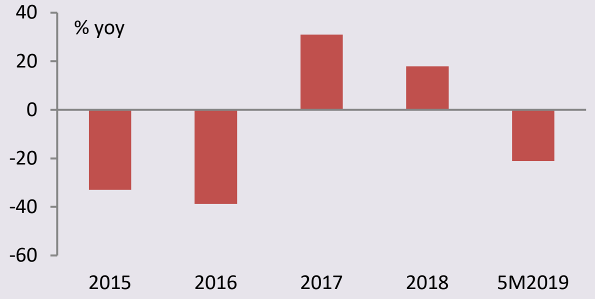
This development is accompanied by a gradual decline of real interest rates, which is stimulating credit demand; especially consumer and corporate loans are developing dynamically. The declining share of directed lending, which fell from over 40% at the beginning of 2016 to almost 28% at the beginning of 2019, also deserves positive mention.

Negative development of foreign trade

Against the background of the pollution of the Druzhba pipeline and various other trade tensions with Russia (including a renewed ban on imports of meat and dairy products from several Belarusian companies), the positive trend in foreign trade came to a halt. Exports of goods fell by 4.1% over 6M2019, while imports shrank by 1.3%. Exports of crude oil and oil products – one of the most important export goods, especially to the EU

– developed particularly negatively and fell by more than 20% over 5M2019.

Exports of crude oil and oil products



Source: Belstat; Note: based on the value of exports

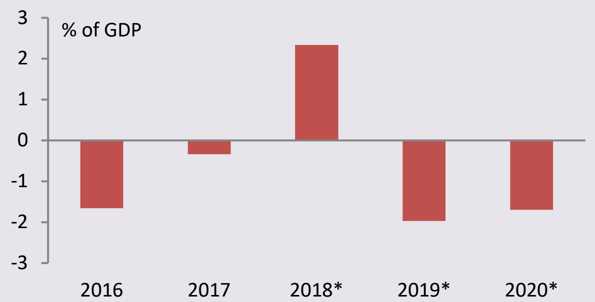
The weak development of exports, the ongoing nuclear power plant construction and the Russian tax manoeuvre are contributing to the fact that the current account deficit will again widen to -2.1% of GDP in 2019. This trend will continue in 2020 (deficit of -3.0%), as the revenue losses from re-exporting crude oil – due to the Russian tax manoeuvre – will increase further.

Against this backdrop, an increase in international reserves can be seen as positive. After stagnating in 2018, they grew significantly in 2019 and reached USD 8.6 bn in July 2019. Import coverage is thus also rising to currently 2.4 months, thus strengthening resilience against further external shocks.

Increased public spending before elections

After the budget ended 2018 with a positive balance of 2.3% of GDP, renewed budget deficits of just under 2% are to be expected for 2019 and 2020. The main reasons for this are rising spending on pensions and wages in the state sector in the run-up to the 2019 parliamentary elections and the 2020 presidential elections, as well as the loss of revenues in the wake of the Russian tax manoeuvre.

Budget balance



*Source: IMF, *Forecast, Estimate*

With government debt, the situation is similar: after a decline in 2018, a renewed increase is expected in 2019 (51% of GDP) and 2020 (52%). The good budgetary situation in 2018 made it possible to repay around USD 500 m of debt obligations with the highest interest rates.

Outlook

Economic development will slow down again in 2019. Although the influence of external factors is only temporary, real GDP growth will remain limited in subsequent years. In this context, the Russian tax manoeuvre continues to be the greatest risk factor for economic development, especially since the question of a possible compensation is still unresolved and the Russian side is conditioning it on a stronger integration of the two countries. Irrespective of the influence of external factors, comprehensive and sustainable reforms – especially in the area of state-owned enterprises – are still needed to lead Belarus onto a higher growth path in the longer term.

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