

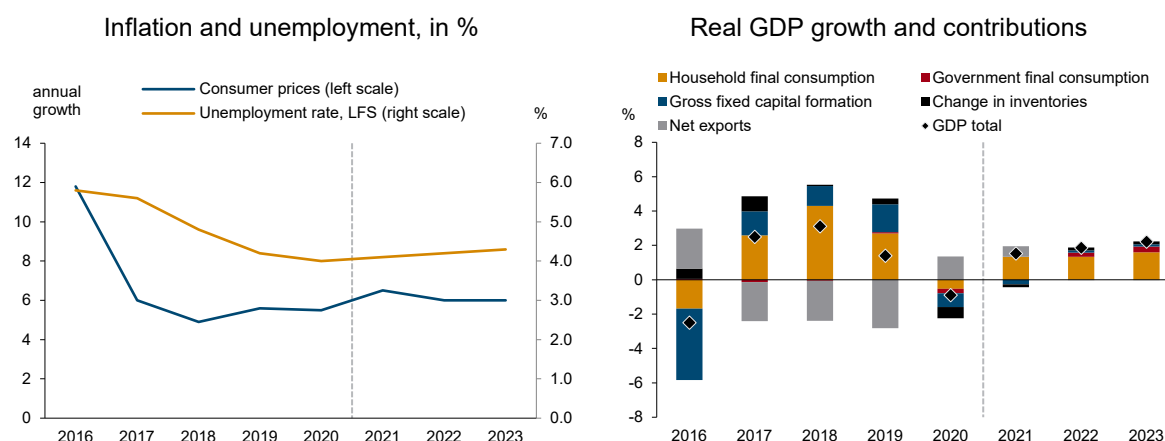


BELARUS: Trapped in a shaky economic situation

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Although Belarus experienced only a mild recession in 2020, the country is going through a period of political and economic turmoil. The disputed presidential election triggered mass protests and isolation from the international financial markets. Russia remains the only source of external funding; however, new lending may be conditional on tough political concessions. Given the growing financial constraints and the deep-seated structural problems, the economic outlook is rather bleak.

Figure 4.2 / Belarus: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Belarus is undergoing political and economic turmoil. The disputed presidential election in August 2020, in which the incumbent, Alexander Lukashenko, was officially declared the winner, undermined the country's international standing and provoked a lasting wave of mass protests. These developments also brought to the surface the fact that Belarusian society – which until then had appeared rather homogenous – was in fact radically polarised between opponents and supporters of Mr Lukashenko's regime. During the harsh winter months, the street protests subsided; however, none of the problems that triggered them was addressed in this period. It may therefore be only a matter of time before angry Belarusians rally again in the country's main cities.

Belarus experienced only a mild recession in 2020, with GDP dropping by a mere 0.9%. However, this was not a sign of economic strength, but the result of a combination of specific local factors, including policy decisions imposed by the authoritarian regime. Belarus is the only country in Europe that has not so far imposed a lockdown or any other containment measures during the coronavirus pandemic. The relatively limited COVID-related policy support was directed only towards the state-

owned sector of the economy. While all this enabled domestic activity to continue without major interruptions, it could not shield the country from negative indirect effects through the channels of international trade. In addition, in the early months of 2020 the Belarusian economy was hit by a reduction in oil supplies from Russia owing to a dispute over the price of imported gas.

The hospitality industry was among the worst affected by the pandemic. Although there was no formal lockdown – hotels and restaurants remained open – demand dropped sharply, owing to the standstill in international travel and the slump in foreign tourist arrivals. Domestic demand also plummeted, owing to self-imposed restraints by the population. As a result, a number of small hotels and restaurants were forced to close; some went out of business.

The manufacturing industry fared relatively well on average (gross industrial output fell by only 0.7% in 2020), but performance was uneven across sectors. At the beginning of 2020, the important petrochemical industry was dealt a blow by the suspension of Russian oil deliveries, with negative carryover effects throughout the year. By contrast, food processing and, in particular, the dairy industry reported positive output growth and increased profit for the year, largely because of increased demand from Russia.

According to the official statistics on COVID cases and mortality rates, Belarus did not fare worse than similar countries that introduced containment measures. However, the reliability of Belarusian COVID statistics has been repeatedly questioned. For example, the reported general mortality rate in the country rose significantly in 2020, which may suggest under-reporting of the number of COVID deaths. However, despite the lack of official restrictions, many Belarusians imposed restraints on themselves similar to the official restrictions enacted in other countries. It should be noted that during the course of the pandemic, so far there have not been reports of serious strains on the Belarusian healthcare system.

There were significant shifts in Belarus's external balances in 2020. In USD terms, the value of goods exports in 2020 fell by 13% from their 2019 level. The reduction in the exports of oil and petrochemicals (down by USD 2.8bn from 2019), which was reinforced by low oil prices, accounted for 70% of the overall decline in goods exports. The value of goods imports in 2020 fell even more steeply, by 17% from the previous year, on account of lower domestic demand and a depreciating exchange rate. The generally thriving Belarusian information technology industry fared well in 2020 as demand for online services grew rapidly. The Hi-Tech Park alone reported record export earnings amounting to USD 2.7bn, which mitigated to some extent the effect of the decline in exports of other services such as transportation and tourism. As a result of these developments, Belarus reported a notable reduction in its overall current-account deficit, from 2% of GDP in 2019 to 0.4% in 2020. Owing to the readjustment of foreign trade flows, net exports made a positive contribution to GDP growth for the year as a whole.

The widespread international condemnation of the brutal suppression of protests against the presidential election outcome resulted in a de facto isolation of Belarus from international financial markets. This caused a problem for the authorities, given Belarus's large external debt, most of which is public. Total debt service in 2020 amounted to around USD 3bn; before the election, Belarus had managed to raise only USD 1.4bn on international markets. Thereafter, Russia remained the only source of external funding. Following a high-level agreement on settling the dispute over prices of imported gas, Russia agreed to extend to Belarus emergency loans amounting to USD 1.5bn (including

USD 500m from the Eurasian Development Bank) and resumed regular oil deliveries. These measures provided a financial lifeline that kept the Belarusian economy afloat in 2020.

The aftermath of the presidential election was marked by domestic financial turmoil, with runs on the currency and the banks. This triggered a depreciation of the Belarusian ruble and a reduction in the country's international foreign reserves, which fell by USD 2.6bn during 2020, to USD 4.4bn at year-end.

Faced with mass post-election protests, the authorities loosened their policy stance in an attempt to protect the large state-owned sector of the economy. There was a significant increase in directed lending to state-owned companies, a policy that the authorities had earlier committed to reduce and eventually abandon. So, although 2020 should have been the last year when directed lending would be applied, its volume increased by 3.2 times from what had been planned, to BYN 2.4bn (1.7% of GDP). According to recent policy statements, directed lending will be continued in 2021 (and probably also in the following years).

The fiscal position deteriorated considerably in 2020. According to the national definitions (which underestimate the true deficit as they do not include extrabudgetary items and contingent fiscal liabilities), the general government balance changed from +2.4% of GDP in 2019 to -1.4% in 2020, corresponding to a relaxation of 3.8 percentage points. The significant currency depreciation triggered a resurgence of inflation which (in year-on-year terms) overshot the 2020 official central bank target of 5% by 2.4 percentage points.

The regime has launched several political initiatives in an attempt to curb social tensions. In February 2021 the authorities convened the All Belarusian People's Assembly – a periodic general meeting of members of all levels of government with representatives of business, academia and the general public. The People's Assembly is seen by the authorities as a means to legitimise the socioeconomic course to be pursued in the coming years. Apart from its regular topics, the recent Assembly officially launched an initiative for a constitutional reform. According to this initiative, this year will be devoted to collecting and discussing ideas for change, with the new constitution subject to a referendum to be held in 2022. So far, it is not clear what the proposed changes in the constitution will be, but it is expected that the main thrust of this reform would be to attain a new balance of authority between the president (the current constitution provides for presidential superpowers) and the other branches of power.

The main problem that the authorities are facing in these efforts is their low credibility. The brutal suppression of the protests that followed the presidential election considerably increased the numbers of opponents of the regime. The authorities' low credibility with wide segments of the public undermines the legitimacy of any top-down reforms that might be initiated, even if these reforms would in principle match some of the opposition's demands.

At the beginning of 2021 the economic situation remained precarious. The servicing of the foreign debt poses the biggest problem for the government. Total debt service due in 2021 amounts to USD 3.3bn. The authorities still have at their disposal some reserves for immediate use. In the early months of the year, the government managed to borrow USD 700m domestically by selling currency bonds to local banks. However, there remains a considerable financing gap, with no clear plans as to how to bridge it. Russia has made it clear that further financial support to Belarus is conditional on the

undertaking of firm policy measures towards a closer economic integration between the two countries; however, so far there are no practical signs on the part of Belarus that it is ready to move ahead with such an agenda.

The unreformed state-owned sector of the economy poses further serious problems. Belarusian businesses are heavily indebted (at the beginning of 2021 their total indebtedness was estimated at BYN 158bn, or 109% of GDP), with most of this debt held by state-owned firms. In the absence of sufficient external funding, the authorities will not have the resources to continue the support of the state-owned sector of the economy. Should they decide to resume directed lending on a large scale by printing money, this might trigger macroeconomic destabilisation and a return to high inflation.

Under these circumstances, the short-term economic outlook for Belarus is rather bleak. The economy is likely to undergo a period of instability, at least until there is more clarity on the future political and economic course. Faced with growing external and domestic financial constraints, Belarus may need to undertake a painful macroeconomic adjustment aimed at curbing domestic demand. We expect GDP to grow by 1.5% in 2021 and – assuming that the country manages to avoid a major financial crisis – by around 2% in 2022 and 2023.

Table 4.2 / Belarus: Selected economic indicators

	2017	2018	2019	2020 ¹⁾	2021	2022	2023
					Forecast		
Population, th pers., average	9,498	9,484	9,442	9,420	9,400	9,380	9,350
Gross domestic product, BYN m, nom.	105,748	122,320	134,732	144,900	156,700	169,200	183,300
annual change in % (real)	2.5	3.1	1.4	-0.9	1.5	1.9	2.2
GDP/capita (EUR at PPP)	12,510	12,710	13,350	13,460	.	.	.
Consumption of households, BYN m, nom.	56,843	64,491	71,630	74,800	.	.	.
annual change in % (real)	4.8	8.0	5.1	-1.0	2.5	2.5	3.0
Gross fixed capital form., BYN m, nom.	27,662	32,081	36,424	37,300	.	.	.
annual change in % (real)	5.5	4.4	6.2	-3.0	-1.0	0.5	0.5
Gross industrial production							
annual change in % (real)	6.1	5.7	1.0	-0.7	2.0	3.0	3.0
Gross agricultural production							
annual change in % (real)	4.2	-3.3	2.9	4.9	.	.	.
Construction industry							
annual change in % (real)	-3.7	2.2	0.1	-4.6	.	.	.
Employed persons, LFS, th, average	4,902	4,897	4,909	4,884	4,850	4,800	4,750
annual change in %	0.8	-0.1	0.2	-0.5	-0.7	-1.0	-1.0
Unemployed persons, LFS, th, average	293	245	213	206	207	210	213
Unemployment rate, LFS, in %, average	5.6	4.8	4.2	4.0	4.1	4.2	4.3
Reg. unemployment rate, in %, eop	0.5	0.3	0.2	0.2	.	.	.
Average monthly gross wages, BYN	822.8	971.4	1,092.9	1,250.9	1,400	1,560	1,720
annual change in % (real, gross)	7.5	12.6	7.3	7.4	5.0	5.0	4.0
Consumer prices, % p.a.	6.0	4.9	5.6	5.5	6.5	6.0	6.0
Producer prices in industry, % p.a. ²⁾	9.8	6.8	6.3	5.6	6.5	6.0	6.0
General governm.budget, nat. def., % of GDP							
Revenues	40.5	41.5	40.0	37.0	38.0	38.0	38.0
Expenditures	37.6	37.5	37.6	40.0	40.0	39.0	39.0
Deficit (-) / surplus (+)	3.0	4.0	2.4	-3.0	-2.0	-1.0	-1.0
General gov.gross debt, nat. def., % of GDP ³⁾	53.4	43.7	42.0	49.0	51.0	52.0	52.0
Stock of loans of non-fin.private sector, % p.a.	7.2	12.7	10.0	21.4	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	12.9	5.0	4.6	6.0	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	11.00	10.00	9.00	7.75	8.5	8.0	8.0
Current account, EUR m ⁶⁾	-843	20	-1,115	-211	-200	-500	-600
Current account, % of GDP	-1.7	0.0	-1.9	-0.4	-0.4	-0.9	-1.1
Exports of goods, BOP, EUR m ⁶⁾	25,405	28,409	28,932	24,769	25,700	26,700	27,800
annual change in %	21.0	11.8	1.8	-14.4	3.8	3.9	4.1
Imports of goods, BOP, EUR m ⁶⁾	28,043	30,536	32,684	26,495	27,800	29,000	30,000
annual change in %	20.5	8.9	7.0	-18.9	4.9	4.3	3.4
Exports of services, BOP, EUR m ⁶⁾	7,000	7,511	8,628	7,701	7,800	8,100	8,300
annual change in %	11.9	7.3	14.9	-10.7	1.3	3.8	2.5
Imports of services, BOP, EUR m ⁶⁾	4,274	4,594	5,237	4,325	4,600	4,900	5,000
annual change in %	7.4	7.5	14.0	-17.4	6.3	6.5	2.0
FDI liabilities, EUR m ⁶⁾	1,130	1,212	1,139	1,220	.	.	.
FDI assets, EUR m ⁶⁾	60	47	-3	67	.	.	.
Gross reserves of CB excl. gold, EUR m ⁶⁾	4,502	4,561	6,265	3,604	.	.	.
Gross external debt, EUR m ⁶⁾	33,363	34,307	36,416	34,311	37,300	38,100	38,500
Gross external debt, % of GDP	68.9	67.3	63.1	66.0	71.5	72.0	71.5
Average exchange rate BYN/EUR	2.1833	2.4008	2.3342	2.7888	3.00	3.20	3.40

1) Preliminary and wiiw estimates. - 2) Domestic output prices. - 3) Including publicly guaranteed debt. - 4) From 2018 doubtful, bad and small part of supervised assets; previously doubtful and large part of supervised assets. - 5) Refinancing rate of CB. - 6) Converted from USD.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.