BELARUS

Highlights

- **After a slowdown in 2019, economic growth turned negative in 2020.** GDP growth was just 1.2 per cent in 2019 and the decline of 0.2 per cent year-on-year in the first quarter of 2020 was largely driven by a supply shock in the petrochemical sector.
- **The Covid-19 pandemic has deepened the recession.** Support to the economy mainly came from limited tax measures and monetary and prudential counter-cyclical measures in the banking sector. Events following the presidential elections in August 2020 have created additional disruption and uncertainty in the economy.
- **The dire economic performance has been paired with limited progress in structural reforms.** The business environment has suffered from a near absence of reforms in the past year, hampering an economy overwhelmed by structural weaknesses in the face of the pandemic.

Key priorities for 2021

- **Corporate governance improvements and commercialisation of the state-owned sector are urgently required.** Inefficiencies and a lack of corporate governance of state-owned enterprises (SOEs) are negatively affecting valuations and seriously undermining the growth potential of the economy.
- **A regulatory level playing field would help unleash the full potential of companies in private ownership.** Private companies still face regulatory discrimination in many sectors of the economy. Liberalisation of economic governance and the introduction of appropriate market regulation are critical measures for restarting the stalled economy.
- **The authorities should start preparing the economy to benefit from long-term post-pandemic shifts in global supply chains.** A strong and diversified industrial base and a highly skilled labour force in near proximity to major European multinational companies can drive future growth provided they are complemented by a sound business environment and a free market economy.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020 proj.
GDP growth	-2.5	2.5	3.1	1.2	-3.5
Inflation (average)	11.8	6.0	4.9	5.6	5.1
Government balance[1]/GDP	-1.7	-0.3	1.8	0.6	-4.7
Current account balance/GDP	-3.3	-1.7	0.0	-2.0	-3.3
Net FDI/GDP [neg. sign = inflows]	-2.3	-2.2	-2.3	-2.0	-1.4
External debt/GDP	78.0	72.8	65.5	64.4	n.a.
Gross reserves/GDP	10.2	13.4	11.9	14.9	n.a.
Credit to private sector/GDP	20.4	20.9	21.3	22.4	n.a.

[1] Includes central government, local government and social security funds.

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Covid-19: macroeconomic implications

The economy entered the Covid-19 pandemic in a weakened state, partly as a result of the delay in reaching a new oil agreement with Russia. GDP contracted by 0.2 per cent year-on-year in the first quarter of 2020 on the back of manufacturing and export declines, due to disrupted production at the oil refineries at the beginning of the year. The Covid-19 pandemic deepened the recession to 1.8 per cent year-on-year in the period January to May, before it moderated to a 1.3 per cent decline in the nine-month period from January to September. In the absence of a full lockdown, the negative impact on non-tradeable services was less severe than in other countries, with the heaviest decline being in transport (9.5 per cent). Agriculture, construction and information and communication technology services all enjoyed strong year-on-year growth. The large export sector was hit hard by reduced global demand, falling almost 18 per cent year-on-year in the period January to August 2020. The events following presidential elections in August caused additional disruptions in economic activity, and the currency came under renewed pressure. The Belarusian rouble depreciated by 8 per cent against the US dollar between the election and the end of August, adding to the currency weakening at the beginning of the year, with the total depreciation standing at 20 per cent in 2020 as of the end of October. Foreign reserves declined from an historical high of US$ 9.4 billion at the end of 2019 to US$ 7.3 billion in September 2020.

Fiscal constraints impeded a comprehensive financial response to the crisis. The combination of a lack of available foreign financing, substantial debt service obligations and the absence of rapid financing from the International Monetary Fund (IMF) has left policymakers with little room for manoeuvre. Support to the economy was limited to the use of prudential counter-cyclical measures in the banking sector, providing additional loan support to SOEs and temporary fiscal benefits for small and medium-sized enterprises. Eventually, benefiting from the liquidity that flooded financial markets, Belarus issued Eurobonds amounting to US$ 1.25 billion in June 2020, helping to ease the near-term financing obligations. In September 2020 a preliminary agreement was reached with Russia for an additional US$ 1.5 billion to ease the foreign currency liquidity constraints.

The post-election worsening of the business environment threatens the pace of recovery from the Covid-19 recession. The rapid deterioration of the macroeconomic environment during 2020 is visible in the scarcity of foreign currency liquidity and banking deposits withdrawals. An environment of uncertainty and intimidation threatens the vibrant export-oriented digital sector, one of the rare bright spots during the pandemic. Output is forecast to decline by 3.5 per cent in 2020 and then increase by a mere 1.0 per cent in 2021. Prolonged political instability remains the main risk for this scenario.

Policy response to Covid-19

Crisis-response measures have been limited and skewed towards recommendations instead of regulation. In April 2020 the authorities announced a package of fiscal measures, which include additional resources for the healthcare sector, and tax relief and tax deferral measures for companies in the sectors most affected by the pandemic. Tax measures are largely left to be designed and implemented at the local government level. The growth of prices and tariffs for socially important goods was capped in the initial period of the pandemic, and later extended until the end of 2020. Rent payment holidays and a moratorium on raising the base rent amount or the actual amount of rent were introduced for state property. In the state sector, the authorities delinked wages from productivity growth to avoid a strong decline in real wages. Public sector organisations are being subsidised in case their production was disrupted. During 2020, the amount of new directed loans to SOEs increased significantly, reversing the trend in recent years of phasing them out. Meanwhile, the National Bank of Belarus has decided to apply counter-cyclical measures related to the mitigation of a number of prudential requirements, and it issued guidance to the banks to offer loan holidays to targeted customers. It also partially released the capital buffers and extended the maturity of its refinancing loans.

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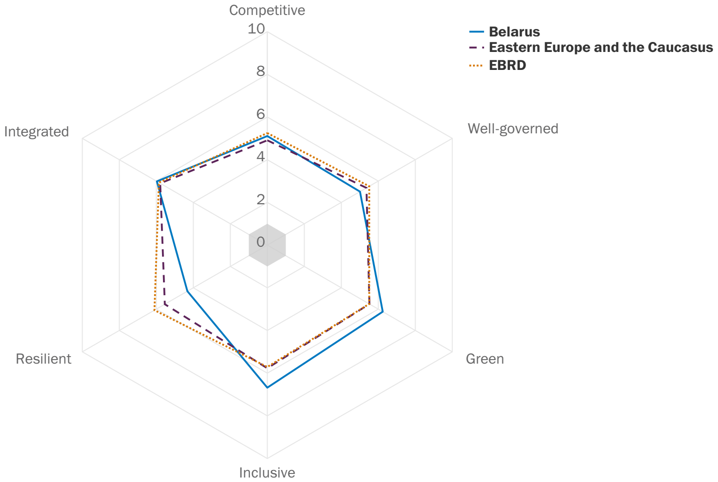
Assessment of transition qualities (1-10)



Structural reform developments

The halt of crude oil supply from Russia is forcing oil refineries to adapt. The oil and gas agreement with Russia expired in 2019. Delays in reaching a new agreement resulted in a temporary cessation of oil supplies from Russia to Belarus on 1 January 2020. This forced the oil refineries in Belarus to run their refineries at minimum load and to suspend exports. As a consequence, Belarus started exploring other oil suppliers. An agreement was reached in the second quarter of 2020, leading to a partial resumption of oil imports from Russia.

The government introduced an environmental tax on oil transit. Introduced by presidential decree in January 2020, the tax of 50 per cent will be applied on profits of companies providing transit for crude oil and petroleum products via Belarus. The proceeds will be used to create resources in case of environmental damage from potential future oil pipeline damage. The new tax comes less than a year after the contamination of the Druzhba pipeline, which caused disruptions in oil delivery and a strong negative impact on the Belarusian economy.