

Overview

- Economic growth slowed down significantly in 2019 (+1.2%) due to external factors. Forecasts for 2020 (+0.9%) and 2021 (+0.5%) are on a similarly low level.
- Growth was driven mainly by domestic demand; on the supply side, production in the manufacturing sector developed rather sluggish (2019: +1.2%)
- Inflation remained under control (2019: 4.7%), the National Bank cut the key interest rate several times. Real wages grew sharply in the run-up to the presidential elections (11M2019: +7.5%)
- Russian tax manoeuvre and wage increases in the public sector are putting pressure on the budget: balance deteriorated significantly in 2019 and 2020. Debt ratio will increase again in 2020 (52.7% of GDP)
- Exchange rate remained mostly stable. Foreign exchange reserves reached a new high (Dec-19: 9.4 bn USD), import coverage now at about 3 months
- Current account deficit widened again in 2019 (1.9% of GDP). Significant deterioration expected for 2020 (5.6%)
- External trade and especially exports developed poorly. High uncertainty about future supply terms for crude oil and gas transit from Russia stemming from the current talks on integration

Topics

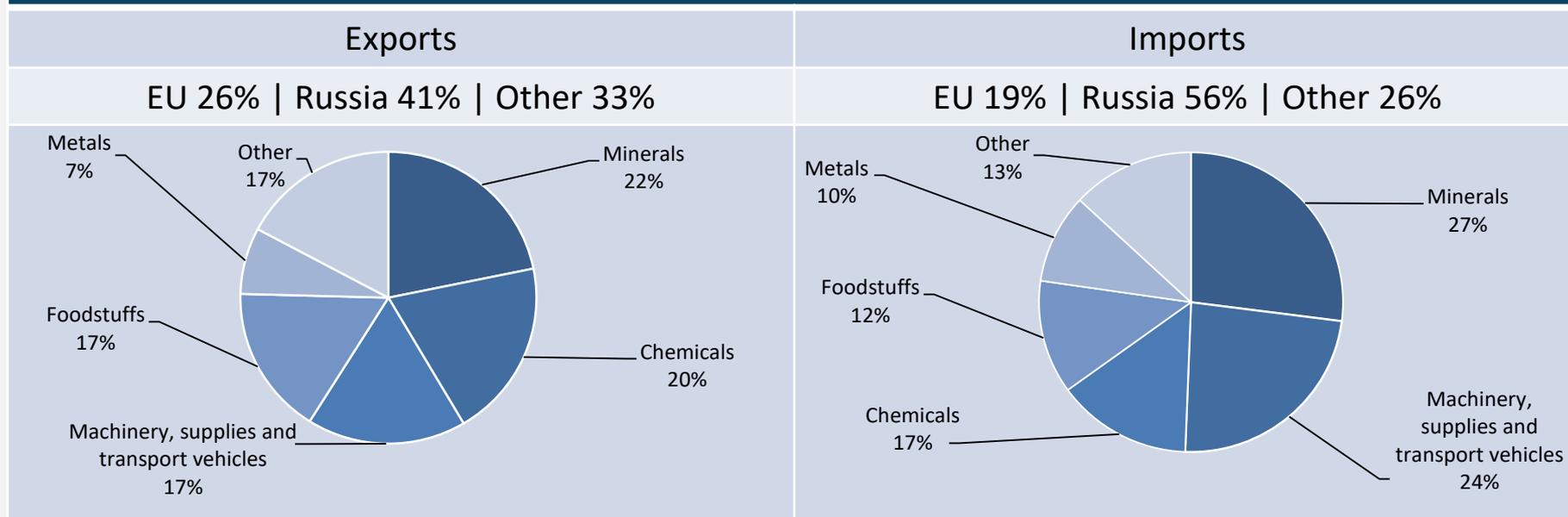
- **Investment study.** Identification of 35 proposals by German businesses to improve investment climate in Belarus
- **New initiatives to support SMEs.** New approaches for financial SMEs support are being discussed as part of a new reform agenda. Focusing growth-oriented SMEs appears to be reasonable.
- **Agricultural exports.** Exports of products of animal origin are heavily concentrated on the Russian market. Diversification encouraged, especially dairy products have potential.

Basic indicators

	Belarus	Rusland	Ukraine	Moldova	Georgia
GDP, bn USD	63.1	1,637.9	150.4	11.7	16.1
GDP/capita, USD	6,659	11,163	3,592	3,300	4,380
Population, m	9.5	146.7	41.9	3.5	3.7

Source: IMF, Belstat, Geostat, German Economic Team; Projection for 2019

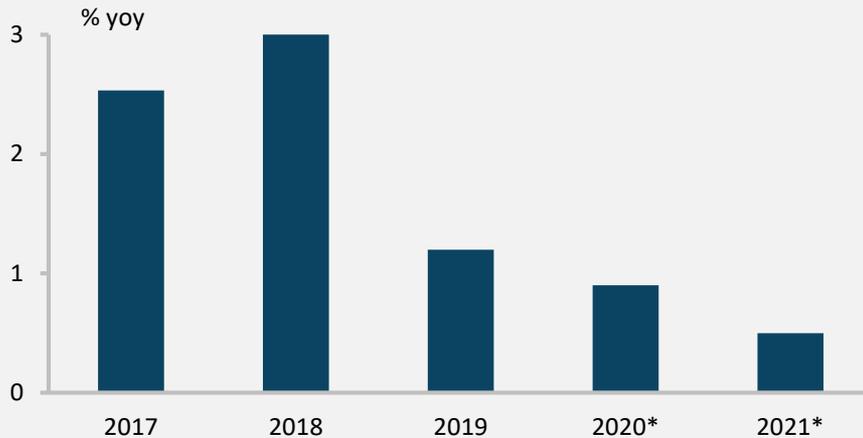
Trade structure



Source: Belstat, 11M2019; Note: trade in goods

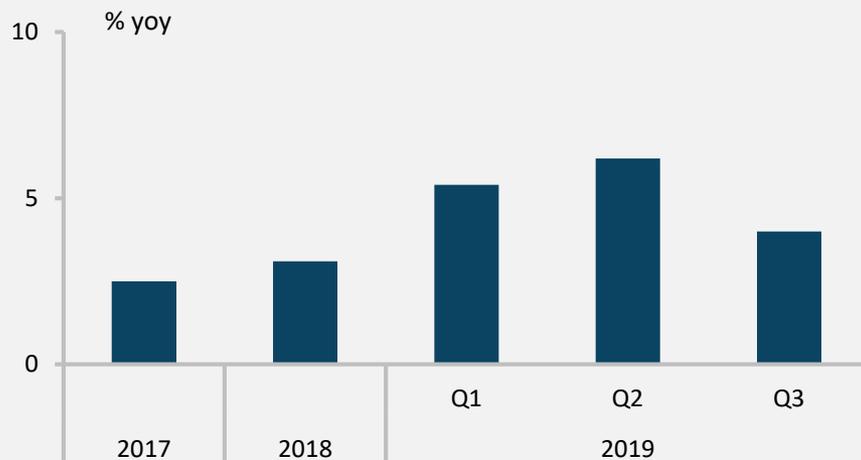
Economic growth

Real GDP growth



Source: Belstat; *Forecast of the World Bank

Real private consumption



Source: Belstat

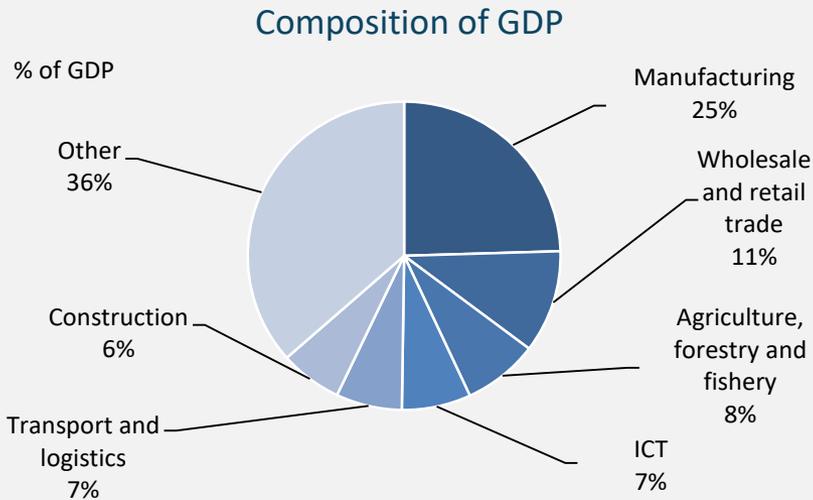
GDP

- Significant economic slowdown in 2019 (+1.2%) after solid growth in 2018 (+3,1%)
- Main reason: negative effects of external factors on manufacturing and external trade (especially petroleum products)
- Growth in 2019 driven by domestic demand:
 - Real consumption: +5.2% (3Q2019)
 - Real monthly wages increased again in the year preceding the election (11M2019: +7.5%)
- Forecast for 2020 (+0.9%) and 2021 (+0.5%) similarly sluggish

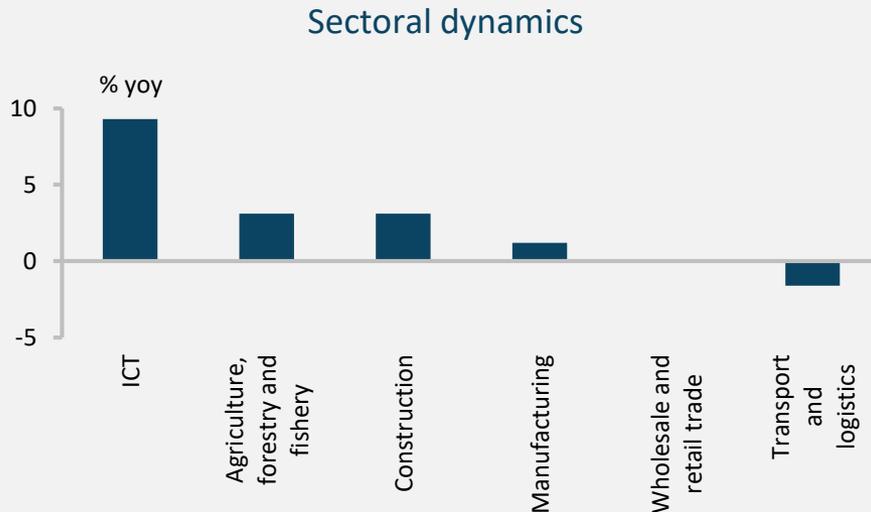
Conclusion

- External factors and lack of reforms dampen growth prospects
- Russian tax maneuver remains without compensation

Sectoral perspective



Source: Belstat; 2019 data



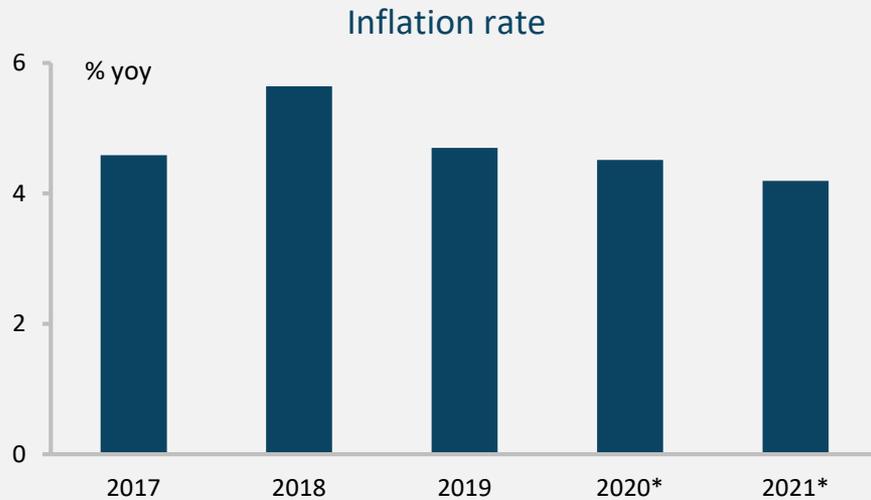
Source: Belstat; 2019 data

- Manufacturing (25%), trade (11%), agriculture (8%) and ICT (7%) are the most important sectors
- Overall, weak development compared to 2018:
 - Manufacturing: +1.2% (2019) vs +5.2% (2018)
 - Trade: +0.0% (2019) vs +5.8% (2018)
- Contamination of Druzhba pipeline put a strain on manufacturing
 - Oil deliveries from Russia to Belarus via Druzhba declined: 17.6 m t (2019) vs 18.0 m t (2018)
 - Oil products: -5.2% (2019)
- Positive: agricultural sector grew again (2019: +3.1%); ICT sector remained strong (2019: +9.3%)

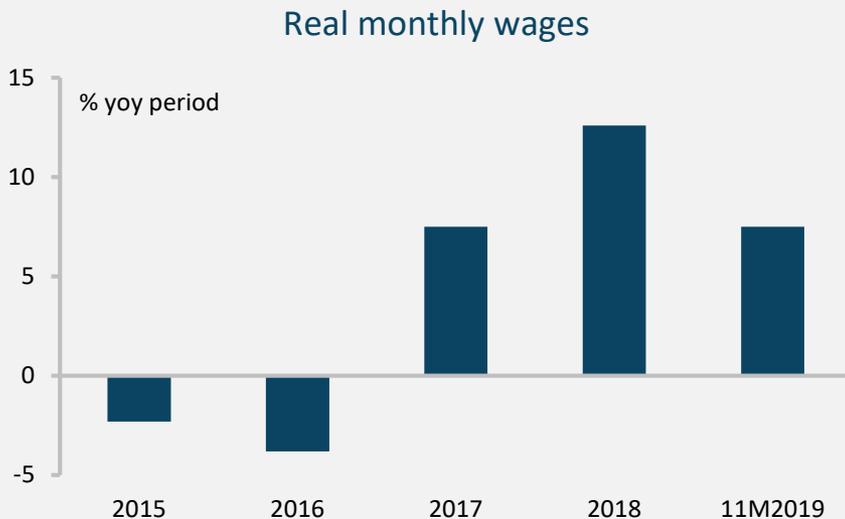
Conclusion

- Weak dynamic in the most important sectors on the supply side
- Risk: So far no new contract on Russian oil and gas

Inflation and interest rates



Source: Belstat, IMF, *Forecast, Note: eop



Source: Belstat, Note: averages wages in BYN

Inflation and interest rates

- Slight decline in inflation in 2019: 4.7% at the end of the year
- National Bank was able to meet its target (< 5.0%) again; further decreases expected
 - 2020: 4.5% (eop)
 - 2021: 4.1%
- Two cuts of the key policy rate in 2019; currently at 9.0% (Nov-19)
- Slight increase in real interest rates on new loans in BYN (Nov-19: 5.8%)

Wages

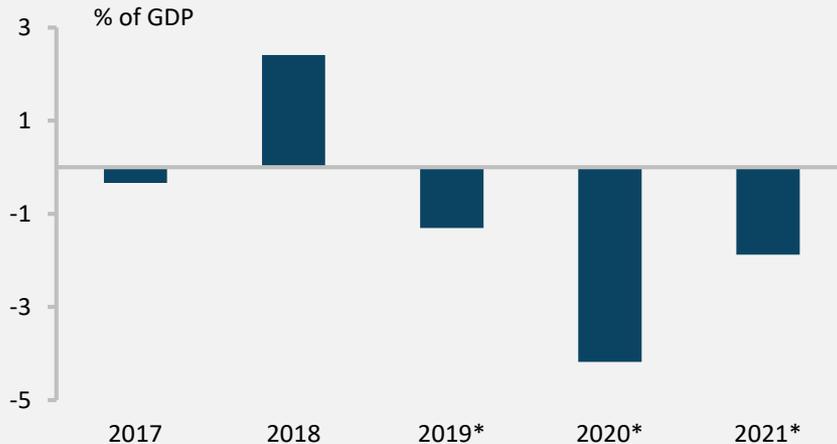
- Real wages are still rising significantly
 - 2018: +12.6%
 - 11M2019: +7.5%
- Wage increases especially in the public sector in the run-up to the presidential elections
- Nominal wages at USD 542 (Nov-19)

Conclusion

- Inflation remains under control; wage growth continues

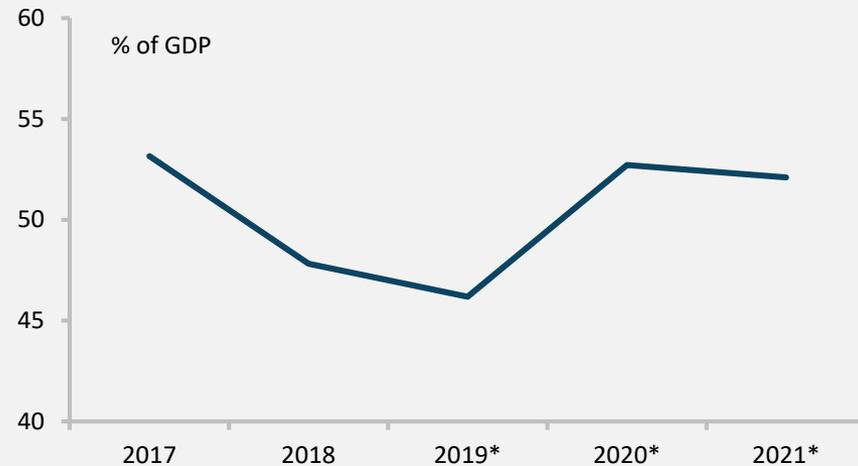
Public finances and government debt

Budget balance



Source: IMF, * Estimate/Forecast

Public debt



Source: IMF, *Estimate/Forecast

Budget balance

- Budgetary situation is deteriorating again:
 - 2019: -1.3%
 - 2020: -4.2%
- Russian tax manoeuvre and weak exports of oil products make themselves apparent
 - Revenues from external trade dropped by 18.5% (3Q2019), mainly due to decreasing tariff revenues from oil product exports
 - 2020: effect expected to amplify
- Public expenditures increased due to public sector wage increases by 5.2% (3Q2019)

Government debt

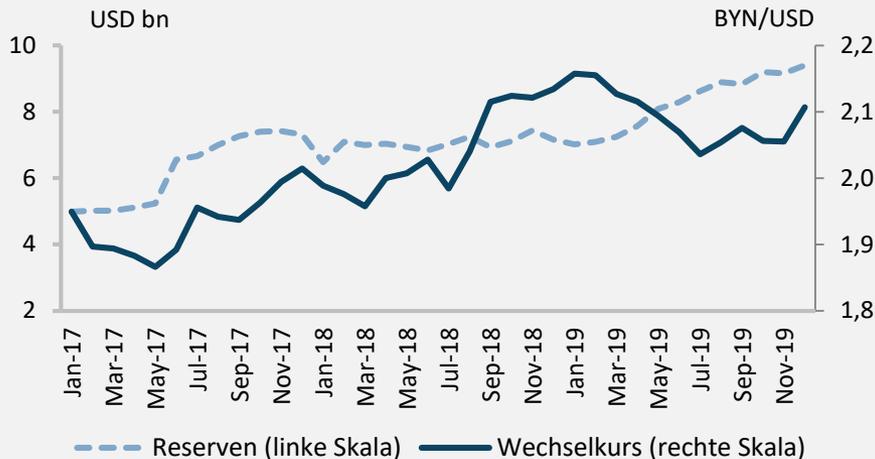
- Decrease of public debt in 2019 (46.2% of GDP)
 - Russian loan of USD 600 m not granted; instead borrowing in CNY in Dec-19 (about USD 500 m)
- 2020: Further increase expected (52.7%)

Conclusion

- External factors and higher spending on public wages increase pressure on the budget

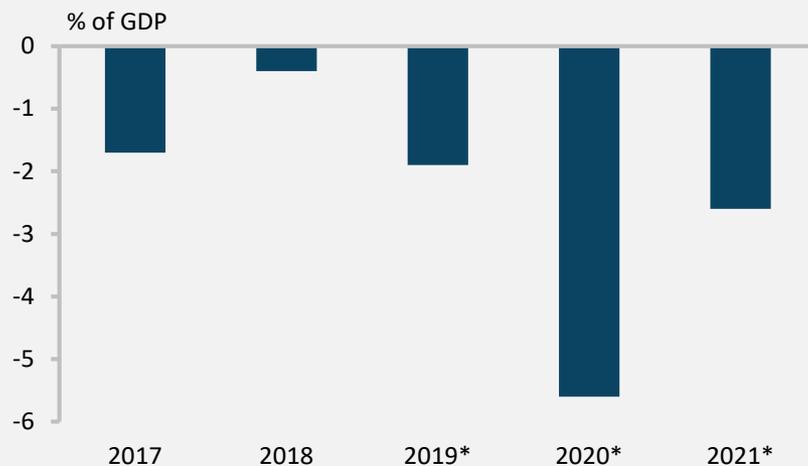
Current account and exchange rate

Exchange rate and currency reserves



Source: NBB

Current account



Source: World Bank, *Forecast

Exchange rates and reserves

- Slight appreciation of BYN over 6M2019; depreciation towards year end
- Continuation of the currency liberalisation in 2019; further measures planned for 2020:
 - Esp. simplifying the opening of accounts at foreign banks for legal entities
- Foreign exchange reserves are at an all-time high (Dec-19: USD 9.4 bn)
- Import coverage at record level: 3 months

Current account

- Deficit increase in 2019 (1.9%) and especially 2020 (5.6%) to be expected
 - Main factors: weak development of exports and Russian tax manoeuvre

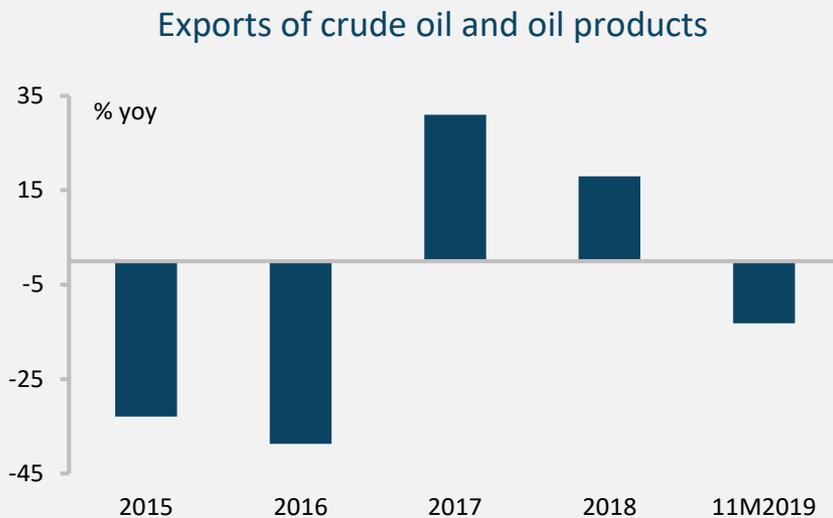
Conclusion

- Positive development of FX reserves; external factors put a strain on current account

External trade



Source: Belstat; Note: trade in goods



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

- Weak development of external trade
 - 11M2019: exports -3.8%
 - 11M2019: imports +0.6%
- Strong decline in exports to the EU; imports increased slightly
 - 11M2019: exports -18.0%
 - 11M2019: imports +3.6%
- Decline in exports mainly due to interruptions in crude oil delivery because of the contamination of the Druzhba pipeline
 - 11M2019: -13.2%
 - Most important export good, esp. to EU
- Risk for 2020: short interruption of delivery at the beginning of the year; no new contract as of now, only temporary deal

Conclusion

- External trade is developing poorly
- High uncertainty about future terms of crude oil and gas transit from Russia stemming from the current talks on integration

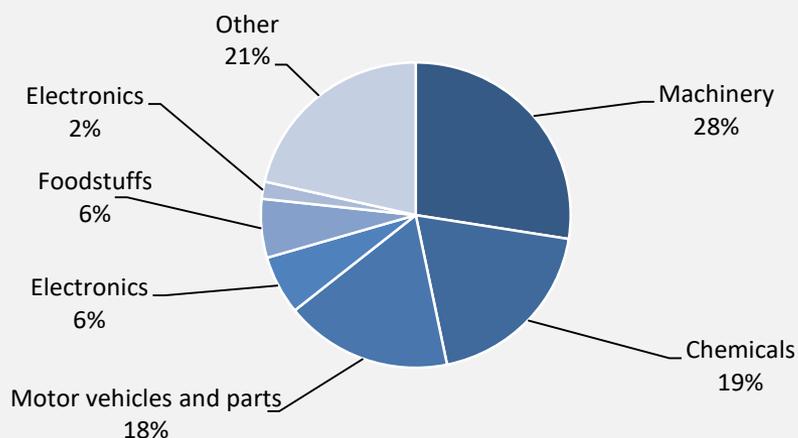
Bilateral trade between Belarus and Germany

External trade with Germany



Source: German Federal Statistics Office; note: trade in goods

German exports to Belarus



Source: German Federal Statistics Office, 11M2019; note: trade in goods

- 11M2019: Weak development of exports and decline of imports
 - German exports: +1.9%
 - German imports: -6.1%
 - Trade volume: -0.5%
- German exports of the most important product groups increased (11M2019)
 - Machinery: +3.5%
 - Chemicals: +2.3%
 - Motor vehicles and parts: +7.9%
- German imports of the most important product groups on the other hand declined (11M2019)
 - Iron and steel: -16.0%
 - Chemicals: -15.4%

Conclusion

- After moderate growth in 2018, bilateral trade declines slightly in 2019

Study on improving the investment climate

Top 4 reform proposals

Priority	Titel
1	Abolishing the freeze on VAT refunds for shipments
2	Accepting invoices for customs clearance of goods
3	Abolishing excessive account blocking during tax disputes
4	Abolishing the taxation of unrealised profits from exchange rate adjustments

Source: *Improving the Business Climate – Boosting Private Investment: Proposals from German business in Belarus, PS/01/2019*

Background

- Economic growth in Belarus is stagnating; without structural reforms, growth potential is limited
- Higher and sustainable growth requires a dynamically expanding private sector; a good business climate is essential
- Goal: developing conditions in the country in a positive direction in order to increase private (and foreign) investment

Study

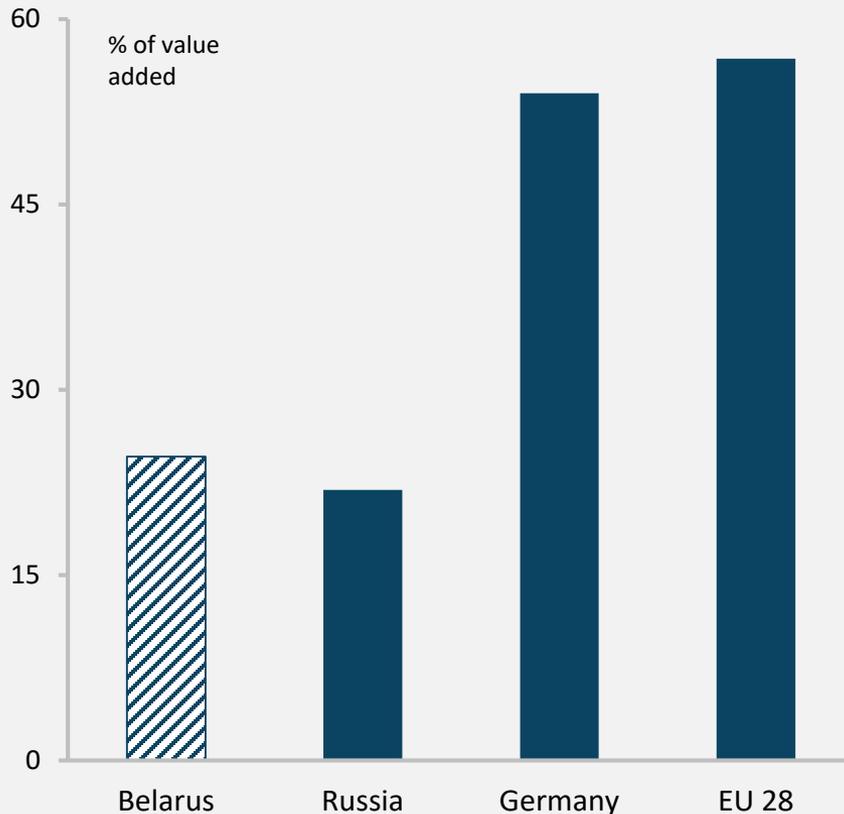
- Prepared in cooperation with German business associations: OAOEV, RDW und DBWC
- Identified 35 reform proposals overall
- Which reform stand to deliver the highest utility and can be implemented the quickest?

Next step

- Review and implementation of the proposals by the Belarusian government; support and monitoring by the German partner institutions

New initiatives to support SMEs

Relevance of SMEs



Source: BelStat, RosStat, EuroStat 2018

Background

- Reform package to improve the business climate 2017/18
 - Simplified the process of founding and registering a company
 - Improved ratio of industries subject to licensing and „free“ trades
- Current reform initiatives until 2030
 - Increasing the SME share of value added to 50 %
 - Next steps towards freedom of trade
 - Reforming the regulation of freelance professions
 - New instruments of financial and non-financial support to SMEs
 - Reforming SME support infrastructure

GET recommendations

- Focussing on supporting growth-oriented SMEs
- Differentiated and target-group specific support instruments
- Modern definition, statistics and monitoring of SMEs, following the European model

Diversification of agricultural exports

Countries with the highest export potential for goods of animal origin

A. Europe

Country	Number*
Germany	10
Austria, Sweden	7-8
France, Poland, United Kingdom, Denmark, Estonia, Netherlands	5-6
Belgium, Czechia, Ireland, Italy, Spain, Finland, Lithuania, Norway, Romania, Switzerland	3-4
Luxembourg, Serbia, Slovakia, Greece, Portugal	1-2
Other European countries	0

B. Asia & Africa

Country	Number*
China, Vietnam	9-10
United Arab Emirates, Cyprus	7-8
Korea, Israel, Lebanon	5-6
Hong Kong, Jordan, Malaysia, Mauritius, Oman, Singapur, Cape Verde, Egypt, Maledives, Turkey	3-4
Brunei Darussalam, Pakistan, Algeria, Cameroon, Central African Republic, Cote d'Ivoire, India, Indonesia, Iran, Mozambique, Nigeria, South Africa, Tunisia	1-2
Other Asian and African countries	0

Source: German Economic Team

Note: *The number assigned to each country relates to the frequency with which the country has been mentioned in the Top 10 destinations (A. Europe; B. Asia and Africa) for each of the Top 10 products.

Background

- Exports of products of animal origin in 2018: USD 3.8 bn (12% of total exports), 74% of agri-food exports
- High concentration on traditional markets: 82% Russia, 7% Kazakhstan, 2% Ukraine

Market access Europe, Asia & Africa

- Mostly non-preferential import duties
- Only two free trade agreements (outside of CIS): Serbian Vietnam
- No WTO-membership
- BUT: EU-approved BLR businesses comply with product safety requirements for many products of animal origin, incl. dairy and fish → unused potential

Products with the highest export potential

- Europe: cheese, butter and milk-based spreads, prepared and cured fish
- Asia & Afrika: cheese, beef as well as butter and milk-based spreads

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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