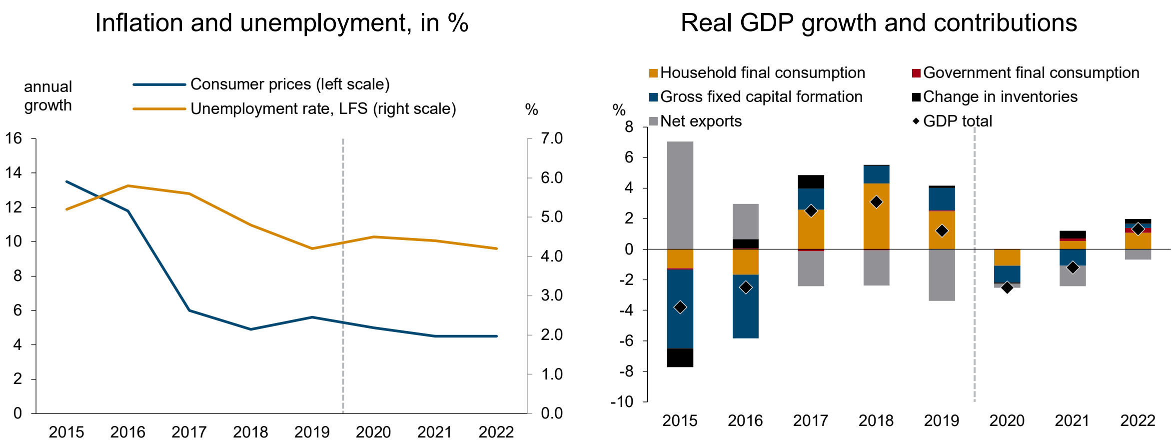

# BELARUS: Popular revolt with uncertain prospects

RUMEN DOBRINSKY

**The ongoing protests in Belarus have triggered the worst political crisis in recent history and brought to light some deep-seated problems. The economy is weakened and its prospects are bleak, as Belarus is facing grave structural problems and balance of payments constraints. A recent bailout by Russia is not sufficient to secure future financial sustainability. In the short run, Belarus will likely experience a protracted recession and possible further political and economic turbulence.**

**Figure 4.2 / Belarus: Main macroeconomic indicators**




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

**The disputed presidential elections held in August sparked an unprecedented wave of mass protests in Belarus.** These rallies reflect the accumulated popular discontent with President Lukashenko's authoritarian rule and his hazardous neglect of the COVID-19 threat. However, the outcome of the protests is far from certain, as the regime has a firm grip on the security forces and can apply oppressive means. The protests have also revealed a split in society, with younger, well-educated urban dwellers joining the protests, while the older generations living in the countryside still seem to be sticking with Lukashenko.

**Following a decision single-handedly taken by Mr Lukashenko, Belarus did not introduce any form of COVID-related lockdown.** Moreover, the containment measures initiated by the government were only marginal. It is difficult to judge the health-related consequences of this neglect, as the official Belarusian health statistics are incomplete and probably distorted, especially as regards the death rates attributable to the pandemic.

**Despite the lax containment measures, the pandemic has led to a weakening of domestic demand, while exports have plunged.** In view of this, the authorities launched two packages of policy support measures in April and May. The first envisaged financial support for the worst-affected economic sectors, such as retail trade and transport, but also manufacturing and some service industries. The second targeted social protection, with a rise in unemployment benefits and an increase in budgetary allocations to the healthcare system.

**The Belarusian economy has so far suffered only a relatively mild negative shock.** GDP in the first six months dropped by only 1.7% year on year, with a 0.2% decline in the first quarter and a drop of 3.3% in the second. On the supply side, such an outcome reflected the fact that most businesses continued to operate without interruption. On the demand side, it partly results from some populist income-support measures undertaken prior to the elections. The situation in the labour market did not change significantly either.

**The negative impact was more pronounced in the manufacturing industry, due to a plunge in demand for exports.** In the first half of the year, the export of goods dropped by 18% year on year in current US dollar terms. The import of goods shrank by the same margin, mostly due to the reduced import of intermediates intended for processing and exports. Gross industrial output fell by 3.1% year on year in the first six months, and the likelihood is that there will be a further deterioration in manufacturing performance.

**The years 2018 and 2019 were marked by rumbling disputes with Russia over the price of imported hydrocarbons, and this spat intensified in 2020.** This resulted in frequent disruptions to the supply of Russian oil. In 2019, Belarus imported just 18 million tonnes of oil, instead of the 24 million tonnes envisaged by the medium-term framework contract between the two countries. With the deepening of the disputes at the beginning of 2020, oil deliveries based on the framework agreement even stopped entirely for some time and Belarus started exploring alternative sources for the supply of crude oil.

**However, since the outbreak of the political crisis, Belarus has been much more accommodating in its energy dispute with Russia.** Although no concrete details have been revealed, there are indications that Belarus withdrew its previous contentions and that the new agreements between the two countries were concluded on Russian price terms. This paved the way for the resumption of regular oil deliveries: reportedly, the regular supply of Russian oil has now been restored, which will allow Belarusian petrochemical plants to work at close to full capacity in October. Nevertheless, according to preliminary estimates, total oil imports from Russia in 2020 will drop further to just 16-16.5 million tonnes, on account of the disruption at the beginning of the year. This has impacted on the key export-oriented petrochemical industry, as well as on Belarus's fiscal revenue.

**The fiscal situation deteriorated in 2020 under the combined effect of various adverse factors, which will limit the government's room for manoeuvre in dealing with the pandemic and political crisis.** While the central budget was in the comfortable positive zone in recent years, a sizeable deficit is expected in 2020. This has aggravated further the situation with macroeconomic management.

**Given the current political stalemate, the risks for the Belarusian economy have increased significantly.** In the short run, the greatest risks are associated with the servicing of the public debt, most of which is denominated in foreign currency. At the beginning of 2020, it was estimated that the government needed to borrow about USD 3.3 billion (or some 7% of GDP) over the course of the year, in order to service its foreign debt.

**It was envisaged that one part of this sum would be borrowed on the international financial markets.** Indeed, in June Belarus issued USD 1.25 billion dual-tranche benchmark Eurobonds (USD 500 million at 5.875%, due February 2026, and USD 750 million at 6.378%, due February 2031). These were the first bonds issued by Belarus to be admitted to the London Stock Exchange.

**However, the political crisis has put further implementation of these plans on hold.** While for the time being there are no formal bars to Belarus's access to the international financial markets, subsequent bond issues will likely be problematic, due to the deterioration in the country's international standing. Belarus's sovereign risk premium has increased considerably, which is evidenced in the selloff of Belarusian bonds in the aftermath of the elections: investors started dumping Belarusian bonds and their prices fell by several percentage points. This implies that any future borrowing would come at a much higher cost for Belarus. Moreover, the IMF declined Belarus's request for USD 940 million emergency financial aid to support economic activity in the situation of COVID-19.

**The month of August was also marked by a moderate run on the banking system, highlighting increased risks to macro-financial stability.** In the course of the month, private individuals withdrew deposits worth a total of some USD 1 billion, of which USD 624 million were foreign currency deposits and USD 380 million were deposits in the local currency. People also started converting their holdings into US dollars. This put growing pressure on the currency, and the Belarusian rouble depreciated rapidly over the course of the month, despite massive intervention by the central bank (in August, Belarus's official foreign exchange reserves declined by USD 1.4 billion). While the situation calmed down somewhat in September, this episode is indicative of the growing financial and macroeconomic risks.

**As Belarus started facing possible balance of payments constraints, it was forced to revert to its 'lender of last resort' – Russia.** During his recent visit there, Mr Lukashenko secured new emergency loans amounting to USD 1.5 billion. USD 1 billion is expected to be disbursed before the end of 2020 (of which USD 500 million is in the form of Russian government credit and the other USD 500 million is due to be negotiated as credit from the Eurasian Development Bank). The remaining USD 500 million of Russian government credit is due to be disbursed in 2021.

**There is one tricky aspect of this new funding agreement.** It is related to the fact that the bulk of the Eurasian Development Bank credit (some USD 330 million) is already earmarked to settle the accumulated debt claimed by Gazprom for past deliveries of gas. Such debt was accounted for by the Russian side on the basis of the higher prices unilaterally demanded. Until recently, Belarus systematically refused to accept the Russian price (and hence, to acknowledge the debt); but apparently this was part of the new deal reached by Mr Lukashenko. This will probably not be the last such bailout, and it remains to be seen what political concessions the Russian leadership will demand in return for its financial support.

**At present, the prospects for the Belarusian economy are bleak.** Apart from the mounting financial problems, it is faced with the prospect of a protracted recession. In addition to its chronic structural problems, the real economy will also undoubtedly be adversely affected by the ongoing mass protests and their possible further escalation.

**The main headache for Belarusian policy makers is associated with some deep-seated and interlinked economic problems that have long been neglected.** These include, among others, the need to restructure the large and inefficient state-owned enterprises (which continue to drain public financial resources), to establish a viable social safety net and to secure long-term financial sustainability. Given the current fragile macroeconomic situation, these problems call for an urgent reform agenda, no matter who is at the helm of economic policy.

**Unless there is a further dramatic deterioration in the political situation, we expect the GDP decline to reach some 2.5% for 2020 as a whole.** Given the political and economic uncertainties, we anticipate the recession to continue in 2021, and GDP to fall by a further 1% or more. A modest recovery can be expected to start only in 2022.

**However, worse scenarios cannot be excluded.** A further dramatic escalation of the protests could lead to significant economic disruption, the economic fallout of which would be difficult to predict. Furthermore, an eventual launch of the much-needed fundamental reforms will undoubtedly be associated with additional economic turmoil.

## Table 4.2 / Belarus: Selected economic indicators

| | 2017 | 2018 | 2019 1) | 2020 1Q | 2020 2Q | 2020 1-2Q | 2020 Forecast | 2021 Forecast | 2022 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| Population, th pers., average | 9,498 | 9,484 | 9,442 | . | . | . | 9,420 | 9,400 | 9,380 |
| Gross domestic product, BYN mn, nom. | 105,748 | 122,320 | 131,952 | 32,356 | 33,634 | 65,990 | 135,000 | 139,400 | 147,600 |
| annual change in % (real) | 2.5 | 3.1 | 1.2 | -0.2 | -3.3 | -1.7 | -2.5 | -1.2 | 1.3 |
| GDP/capita (EUR at PPP) | 12,700 | 13,400 | 13,900 | . | . | . | . | . | . |
| Consumption of households, BYN mn, nom. | 56,843 | 64,491 | 71,559 | 18,171 | 17,400 | 35,571 | . | . | . |
| annual change in % (real) | 4.8 | 8.0 | 4.7 | 5.1 | -7.0 | -1.3 | -2.0 | 1.0 | 2.0 |
| Gross fixed capital form., BYN mn, nom. | 27,662 | 32,081 | 35,636 | 7,311 | 8,367 | 15,678 | . | . | . |
| annual change in % (real) | 5.5 | 4.4 | 5.6 | 4.0 | -8.0 | -2.4 | -4.0 | -4.0 | 1.0 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 6.1 | 5.7 | 1.0 | -2.7 | -3.5 | -3.1 | -5.0 | -2.0 | 1.0 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 4.2 | -3.3 | 2.9 | 5.5 | 1.9 | 3.7 | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | -3.7 | 2.2 | 0.1 | 7.9 | -1.1 | 3.4 | . | . | . |
| Employed persons, LFS, th | 4,902 | 4,897 | 4,909 | 4,821 | 4,855.9 | 4,838.2 | 4,820 | 4,800 | 4,770 |
| annual change in % | 0.8 | -0.1 | 0.2 | -2.2 | -0.7 | -1.4 | -1.8 | -0.4 | -0.6 |
| Unemployed persons, LFS, th | 293 | 245 | 213 | 207 | 213 | 210 | 227 | 221 | 209 |
| Unemployment rate, LFS, in % | 5.6 | 4.8 | 4.2 | 4.1 | 4.2 | 4.2 | 4.5 | 4.4 | 4.2 |
| Reg. unemployment rate, in %, eop | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | . | . | . |
| Average monthly gross wages, BYN | 822.8 | 971.4 | 1,090.9 | 1,150 | 1,224 | 1,187 | 1,210 | 1,320 | 1,410 |
| annual change in % (real, gross) | 7.5 | 12.6 | 7.3 | 9.4 | 8.2 | 8.8 | 6.0 | 4.0 | 2.0 |
| Consumer prices, % p.a. | 6.0 | 4.9 | 5.6 | 4.6 | 5.2 | 4.9 | 5.0 | 4.5 | 4.5 |
| Producer prices in industry, % p.a. 2) | 9.8 | 6.8 | 6.3 | 4.4 | 4.8 | 4.6 | 5.5 | 5.0 | 5.0 |
| General governm.budget, nat. def., % of GDP | | | | | | | | | |
| Revenues | 40.5 | 41.5 | 40.9 | 39.0 | 34.5 | 36.7 | 38.0 | 39.0 | 39.0 |
| Expenditures | 37.6 | 37.5 | 38.4 | 38.0 | 41.8 | 39.9 | 40.0 | 40.0 | 39.0 |
| Deficit (-) / surplus (+) | 3.0 | 4.0 | 2.5 | 1.0 | -7.3 | -3.2 | -2.0 | -1.0 | 0.0 |
| General gov.gross debt, nat. def., % of GDP 3) | 53.4 | 43.7 | 42.0 | . | . | . | 48.0 | 50.0 | 52.0 |
| Stock of loans of non-fin.private sector, % p.a. | 7.2 | 12.7 | 10.0 | 26.4 | 18.4 | 18.4 | . | . | . |
| Non-performing loans (NPL), in %, eop 4) | 12.9 | 5.0 | 4.6 | 5.3 | 5.1 | 5.1 | . | . | . |
| Central bank policy rate, % p.a., eop 5) | 11.0 | 10.0 | 9.0 | 8.8 | 8.0 | 8.0 | 7.8 | 7.5 | 7.0 |
| Current account, EUR mn 6) | -843 | 20 | -1,126 | -1,251 | 249 | -1,003 | -1,300 | -1,500 | -1,900 |
| Current account, % of GDP | -1.7 | 0.0 | -2.0 | -9.6 | 2.0 | -3.9 | -2.9 | -3.4 | -4.4 |
| Exports of goods, BOP, EUR mn 6) | 25,405 | 28,409 | 28,932 | 5,858 | 5,516 | 11,374 | 22,400 | 23,500 | 24,300 |
| annual change in % | 21.0 | 11.8 | 1.8 | -13.3 | -22.5 | -18.0 | -22.6 | 4.9 | 3.4 |
| Imports of goods, BOP, EUR mn 6) | 28,043 | 30,536 | 32,684 | 6,443 | 5,984 | 12,427 | 25,900 | 27,400 | 28,700 |
| annual change in % | 20.5 | 8.9 | 7.0 | -9.9 | -25.6 | -18.2 | -20.8 | 5.8 | 4.7 |
| Exports of services, BOP, EUR mn 6) | 7,000 | 7,511 | 8,609 | 2,005 | 1,728 | 3,733 | 7,700 | 7,900 | 8,100 |
| annual change in % | 11.9 | 7.3 | 14.6 | 8.6 | -13.8 | -3.0 | -10.6 | 2.6 | 2.5 |
| Imports of services, BOP, EUR mn 6) | 4,274 | 4,594 | 5,229 | 1,083 | 935 | 2,019 | 4,700 | 4,900 | 5,000 |
| annual change in % | 7.4 | 7.5 | 13.8 | 4.4 | -25.6 | -12.0 | -10.1 | 4.3 | 2.0 |
| FDI liabilities, EUR mn 6) | 1,130 | 1,212 | 1,139 | 1,337 | -168 | 1,169 | 900 | . | . |
| FDI assets, EUR mn 6) | 60 | 47 | -3 | 26.8 | 9 | 36 | 100 | . | . |
| Gross reserves of NB excl. gold, EUR mn 6) | 4,502 | 4,561 | 6,265 | 4,727 | 5,324 | 5,324 | . | . | . |
| Gross external debt, EUR mn 6) | 33,363 | 34,307 | 36,416 | 35,672 | 36,511 | 36,511 | 36,900 | 37,000 | 37,300 |
| Gross external debt, % of GDP | 68.9 | 67.3 | 64.4 | 61.0 | 62.4 | 81.1 | 82.0 | 85.0 | 86.0 |
| Average exchange rate BYN/EUR | 2.1833 | 2.4008 | 2.3342 | 2.4740 | 2.6765 | 2.5753 | 3.00 | 3.20 | 3.40 |

1) Preliminary. - 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 NB. - 6) Converted from USD.

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