Euler Hermes Economic Research

Country Report

Belarus

External liquidity risk remains very high

General Information

GDP	USD63.3 billion (World ranking 68, World Bank 2012)
Population	9.46 million (World ranking 90, World Bank 2012)
Form of state	Republic in name (although highly authoritarian state)
Head of government	Aleksandr LUKASHENKO
Next elections	2016, legislative (Chamber of Representatives)

Strengths

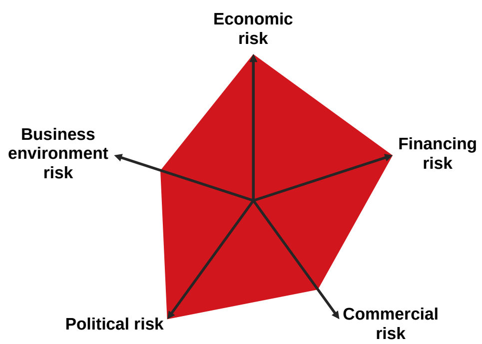
- Fiscal balance has been in moderate deficit or surplus over the last few years and the public debt level is still adequate
- Highly skilled industrial workforce

Weaknesses

- Business-unfriendly, Soviet-style political and economic system. Hardly reform progress
- International isolation. US and EU sanctions
- High economic dependence on Russia, especially on energy
- High inflation and ongoing exchange rate risk
- Large current account deficits
- Very low foreign exchange reserves (1.2 months import cover)
- High external debt
- Generally weak business environment

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Russia	46%	1	60%	Russia
Ukraine	13%	2	6%	Germany
Latvia	8%	3	5%	China
Lithuania	3%	4	5%	Ukraine
Poland	2%	5	4%	Poland

By product (% of total)

Exports		Rank		Imports
Refined Petroleum Products	25%	1	18%	Crude Oil
Commercial Vehicles	7%	2	12%	Refined Petroleum Products
Fertilizers	7%	3	8%	Natural Gas
Miscellaneous Hardware	5%	4	4%	Iron Steel
Fats	5%	5	4%	Engines

Source: Chelem (2012)

EULER HERMES
Our knowledge serving your success

Continued low growth

Deep macroeconomic imbalances stemming from economic overheating under ultra-loose monetary and fiscal policy in 2010 pushed the economy into a severe currency and external liquidity crisis in 2011 from which it has yet to recover.

Real GDP growth has been above the average of Emerging Europe for many years until 2011, but fell to just +1.5% in 2012 on the back of a sharp -13.8% drop in fixed investment as the impact of the deep financial crisis of 2011 took full effect. Growth decelerated further to +0.9% in 2013 and picked up only slightly to +1.2% y/y in H1 2014. Full demand-side details are not available, but it is reported that fixed investment continued to decline markedly by -6.7% y/y in H1, while a +10.9% y/y increase in retail turnover suggests that private consumption gained robustly. On the supply side, industrial output shrank by -1% y/y in H1, while agricultural output contracted by -4.3% y/y.

EH expects economic activity in Belarus to remain weak in the next 18 months or so as the economic crises in neighbouring Russia and Ukraine, its main trading partners, will weigh on the Belarusian economy. Full-year GDP growth is forecast at +1% in 2014 and +1.5% in 2015.

Inflation and exchange rate risks remain on the cards

The official BYR/USD exchange rate was devalued in several steps by a total 178% in 2011 and was unified with the market exchange rate into one floating rate in October 2011. Inflation was driven up by the devaluation and reached 108.7% y/y at end-2011. In 2012 the exchange rate stabilised, depreciating by just 2.6%. Inflation moderated but was still relatively high at 21.8% at end-2012.

Driven by ongoing large macroeconomic imbalances as well as monetary easing (intended to support growth), currency depreciation has accelerated again since mid-2013, reaching 11% y/y at end-2013 and 16% y/y in mid-2014. Inflation has remained relatively high and picked up again from 16.5% at end-2013 to 19.8% y/y in July 2014. Nonetheless, the central bank has continued its path of monetary easing in 2014, lowering its key policy interest rate in four steps from 23.5% at end-2013 to 20% in August 2014. EH forecasts inflation to persist in double-digits and exchange rate risk to remain very high until at least end-2015.

Public finances

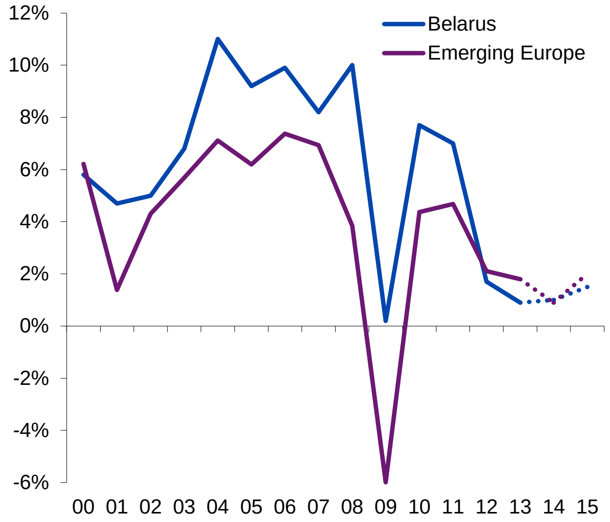
The fiscal balance has been in moderate deficit or surplus over the last few years and the public debt level is adequate at currently 37% of GDP, but this mainly reflects the government's lack of access to external funding. EH projects annual fiscal deficits of around 3% of GDP in 2014-2015. Since Belarusian creditworthiness is weak, the government has in recent years mainly borrowed from Russia and also increased its domestic debt issuance, including sales of foreign exchange-denominated bonds.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	1.7	0.9	1.0	1.5
Inflation (%, end-year)	21.8	16.5	19.0	15.5
Fiscal balance (% of GDP)	1.7	-0.9	-2.9	-3.0
Public debt (% of GDP)	38.5	36.7	37.0	38.0
Current account (% of GDP)	-2.7	-9.8	-10.0	-7.8
External debt (% of GDP)	53.6	51.0	54.1	56.9

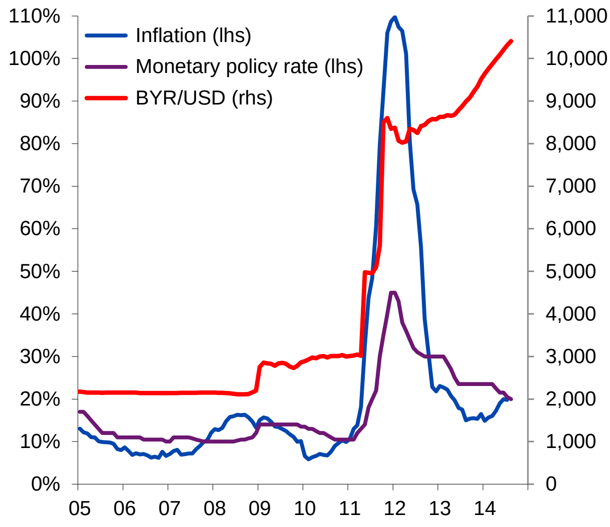
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Monetary policy interest rate (%), inflation rate (y/y, %), and exchange rate



Sources: National sources, IHS, Euler Hermes

Huge current account deficit

The current account deficit narrowed from a record high 15% of GDP in 2010 to 2.7% in 2012, but widened again to an unsustainable 9.8% in 2013. A similar ratio is forecast in 2014 and a slight moderation to about 8% in 2015.

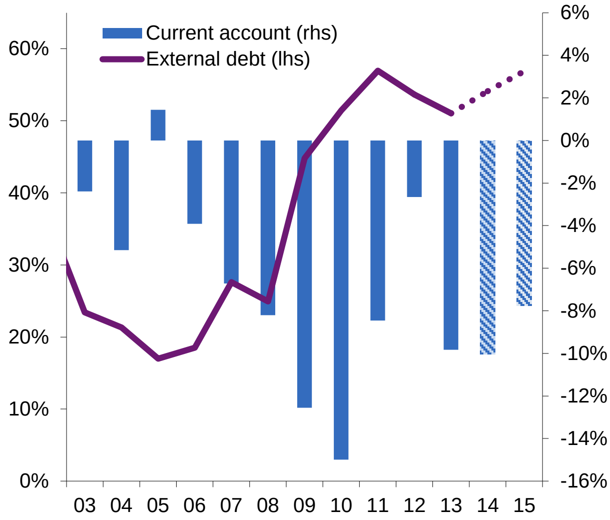
Already high external debt set to rise further

The currency devaluation in 2011 pushed up external debt to a critical level of 57% of GDP, up from an average 23% in 2000-08. After narrowing to 51% of GDP in 2013, EH forecasts the external debt to GDP ratio to rise again to about 57% by end-2015 as a result of external financing of the current account deficits.

Very high external liquidity and T&C risk

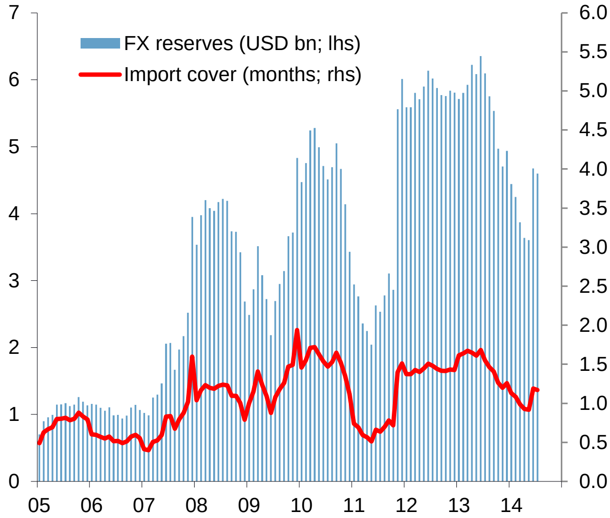
Foreign exchange reserves are low, standing at USD4.6 billion in July 2014, sufficient to cover just 1.2 months of imports or, in other terms, only 19% of all external debt payments falling due in the next 12 months. External liquidity and T&C risk will remain very high in the medium term, especially as IMF funding is unlikely in the next year or two.

Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

Foreign exchange reserves and import cover



Sources: National sources, IHS, Euler Hermes

DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2014 Euler Hermes. All rights reserved.

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2014-09-01
Country Risk Analyst:
Manfred Stamer
manfred.stamer@eulerhermes.com