



## BELARUS: ECONOMIC SUMMARY

### KEY TENDENCES

- Positive GDP dynamics
- Growth of external trade in goods and services
- Maintaining low inflation
- Growth of lending in national currency
- Stability on the domestic foreign exchange market

### MAIN EVENTS

- *Repayment of Eurobonds of the Republic of Belarus* in January 2018, placed in 2011, in the amount of USD 800 million and *placement of a new issue of Eurobonds* in the amount of USD 600 million for 12 years in February 2018.
- *Belarus improved its position in the OECD country risks classification* in January 2018.
- *International rating agencies upgraded long-term credit ratings of the Republic of Belarus*: Fitch Ratings – to level B in January 2018, Moody's – to level B3 in March 2018, Standard & Poor's – confirmed at level B in April 2018. The outlook on the ratings is "stable".
- The Board of Executive Directors of the World Bank approved the *Country Partnership Framework for the Republic of Belarus for the period FY2018-2022* that aims to support sustainable and inclusive growth and improve living standards in Belarus.
- The U.S. Department of Treasury extended the *suspension of sanctions* against enterprises of the Belarusian concern Belneftekhim until October 30, 2018.
- On April 5, 2018, the Financing Agreement between the European Union and the Government of the Republic of Belarus came into the force, aimed at supporting entrepreneurship and economic development in the Republic of Belarus.
- A *China-Belarus Investment Fund* is being established, the founders of which will be the Chinese company CITIC Construction and the Belarusian bank "ASB "Belarusbank".
- Assignment of *sovereign credit ratings* by the Chinese rating agency China Chengxin International Credit Rating Company Limited (CCXI) to the Republic of Belarus at AA+ level according to the Chinese national rating scale, with a stable outlook, according to the international scale – at BBg level.
- *Maximum approximating of the assessment of the level of non-performing assets to international standards* for the assessment of NPL: a new edition of the Instruction on the Procedure for Creation and Using of Special Reserves for Probable Losses on Assets and Operations not Reported on the Balance Sheet by the Banks, Development Bank of the Republic of Belarus JSC, and Non-bank Financial Institutions, approved by the resolution of the Board of the National Bank of Belarus of 15.12.2017 No.505, has come into the force from April 1, 2018.
- *New instruments of restructuring of enterprises' debts and extension of the capacity of banks* to deal with distressed debts, including their exchange for shares and sell at a discount, were introduced by the Decree of the President of the Republic of Belarus No. 200 dated May 24, 2018.
- *Implementation of the securitization mechanism* in Belarus: the Decree of the President of the Republic of Belarus No. 154 of May 11, 2017, On Financing of the Commercial Organizations under Concession of the Rights (Requirements) came into the force from July 1, 2018.
- *The National Bank of Belarus has cut the refinance rate* – on February 14 to 10.5% and on June 27 to 10% per annum, interest rates on standing and bilateral transactions designed to maintain liquidity – on February 14 to 11.75% and on June 27 to 11.5% per annum.

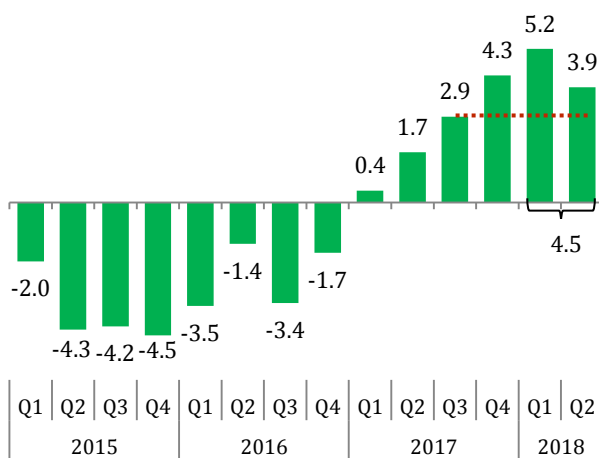


## GROSS DOMESTIC PRODUCT

In the first half of 2018, the growth of the Belarusian economy accelerated to 4.5% (Figure 1). The main contribution to it was made by the structural component - about 2.7 percentage points. Contribution of the cyclical component, reaching the maximum in the first quarter of 2018, started to decline in the second quarter of 2018. A gradual improvement in the quality of economic growth is facilitated by a balanced fiscal and monetary policy, prudent measures of monetary policy, as well as a number of structural measures.

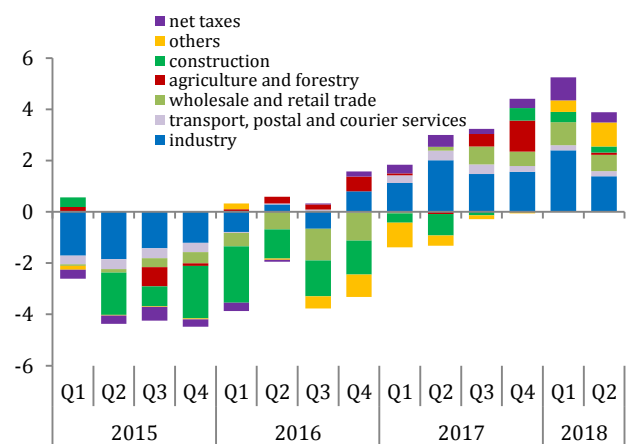
Positive dynamics is demonstrated by all key economic activities (Figure 2). The industry is still the main driver (increase by 7.8%, contribution to GDP – 2.0 p.p.). The most rapid growth was observed in the production of machinery and equipment, other finished products, vehicles, wood and paper products, chemical and pharmaceutical products. The increase in gross value added in agriculture was 1.7% (contribution to GDP – 0.1 p.p.), in construction – 7.5% (contribution – 0.4 p.p.), whole and retail trade – 7.8% (contribution – 0.8 p.p.), transport – 3.9% (contribution – 0.2 p.p.).

Figure 1. GDP growth, % q/q previous year



Source: <http://www.belstat.gov.by>

Figure 2. GDP decomposition by sectors, p.p.



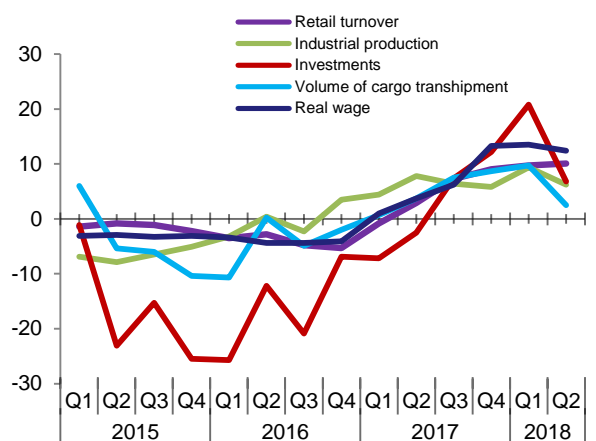
Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

The indicators of domestic demand show unstable dynamics (Figure 3).

In the first half of the year, real disposable money income grew by 7.6%, real wages - 13.0%. The growth of the population's welfare leads to an increase in consumer activity: in January-June, retail trade turnover increased by 9.9% y/y, paid services to the population - by 5.1% y/y.

Improvement of economic sentiments of legal entities against the backdrop of growing external and internal demand promoted investment activity. The growth of investments in fixed assets in the first half of 2018 amounted to 12.4%. Foreign direct investments increased to USD 1.3 billion on a net basis.

Figure 3. Domestic demand indicators, % q/q previous year



Source: <http://www.belstat.gov.by>

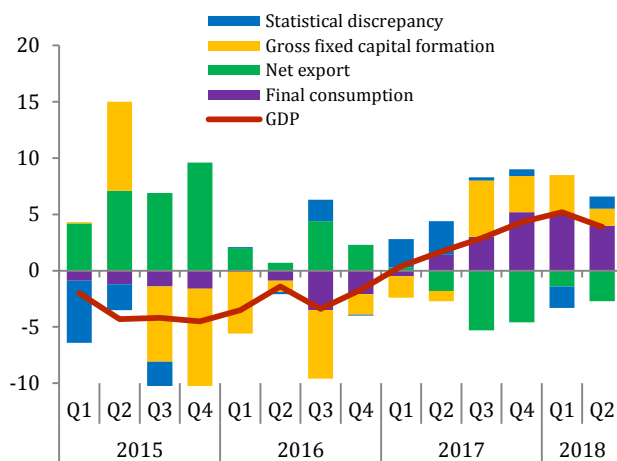
By the end of 2018, the increase of the gross domestic product of the Republic of Belarus is projected at 4.1%. The growth in gross value added is expected in all sectors.



## EXTERNAL DEMAND

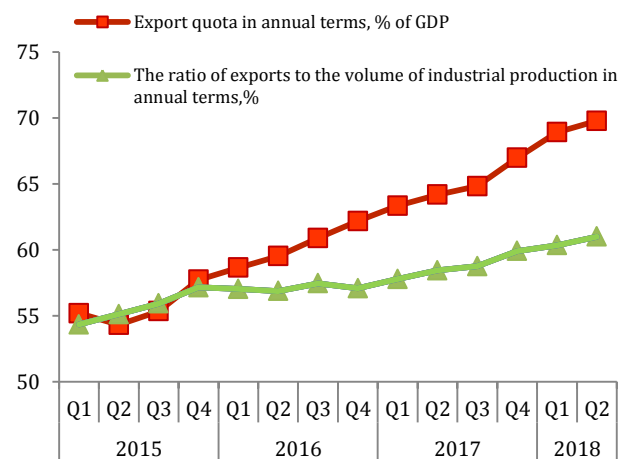
Despite the continuing expansion of domestic demand driven by rising incomes of the population, the negative contribution of net exports in the first half of 2018 decreased compared to the average quarterly level in 2017 (Figure 4). This is evidence of outpacing growth in external demand. This trend is also confirmed by the growth of the export quota and the ratio of exports of goods to the volume of industrial production (Figure 5).

**Figure 4. Decomposition of GDP growth by expenditures, p.p.**



Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

**Figure 5. Indicators of external demand, %**



Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

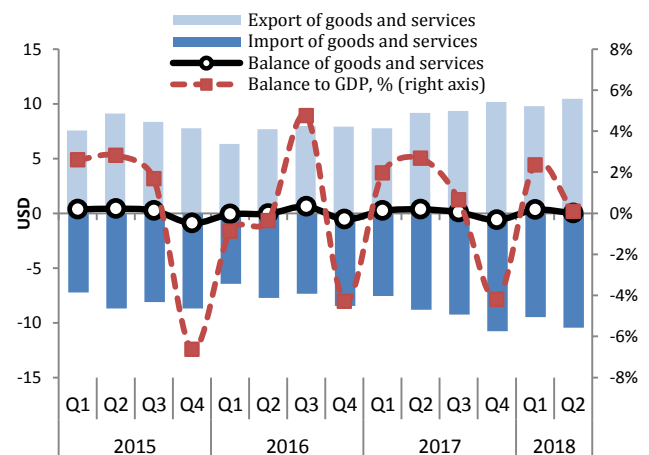
Exports of goods increased by 20.1% y/y in value terms, including due to the growth of physical volumes of supplies - by 7.6%. Supplies of basic positions of the Belarusian export such as potash and mixed mineral fertilizers, trucks, spare parts for automotive engineering, tires, medicines, furniture, particle boards, ferrous metals to foreign markets have grown.

The growth in industrial production and recovery of consumer demand led to an increase in imports of goods by 22.8% y/y in value terms.

The improvement in the balance of export-import operations of the Republic of Belarus was facilitated by the growth of export of services – by 16.7%. Transportation and computer services were drivers of the growth, their exports for the first half of 2018 increased by 15.2% and 36.8% respectively.

The surplus of foreign trade in goods and services amounted to USD 329.4 million for the first half of 2018, or 1.2% of GDP, which is lower than the level of the corresponding period of 2017 (Figure 6).

**Figure 6. External trade**



Source: <http://www.nrb.by>, <http://www.belstat.gov.by>

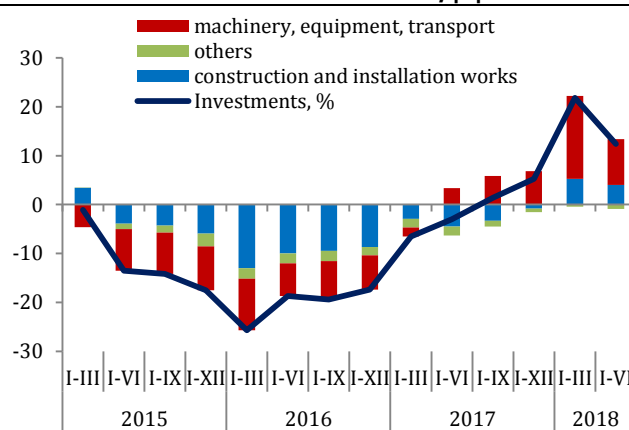


## INVESTMENTS

The growing trend in investment activity, which was formed in 2017, continues during the first half of 2018 (an increase of 7.1 p.p. compared to the result of 2017). The recovery became possible due to several factors. First, the expectations of economic agents improved, and secondly, macroeconomic situation stabilized (lower inflation, stability in the foreign exchange market, intensification of economic activity). They contributed to the resumption of deferred demand for investments.

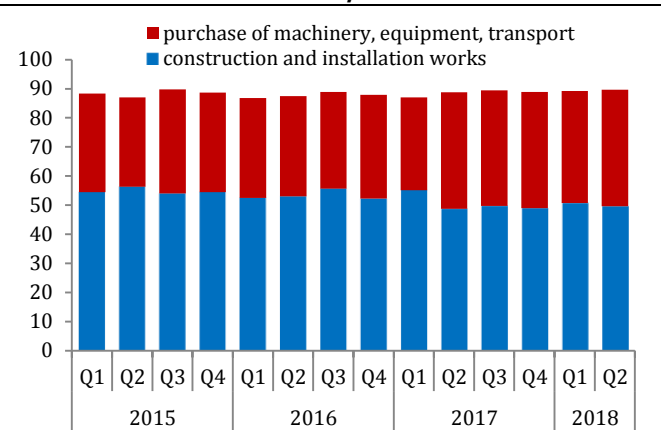
The renewal of the active part of the fixed capital was the driver of the investment growth (Figure 7) – investments in machinery, equipment, and vehicles increased by 24.3%. Their share occupies an increasing part in the structure of investments in fixed assets (Figure 8), which reflects qualitative changes in investment spending.

**Figure 7. The contribution to the growth of investments in fixed assets, p.p.**



Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

**Figure 8. Technological structure of investment in fixed assets, %**



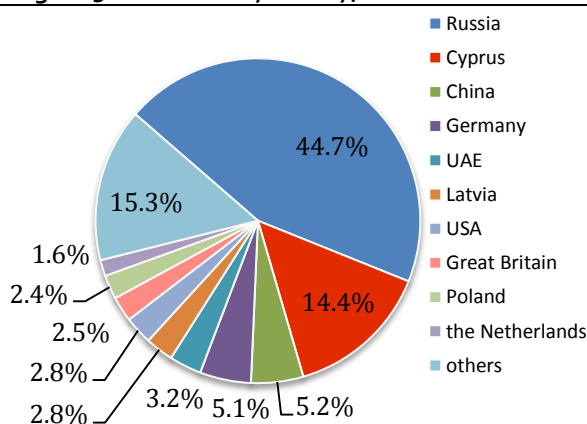
Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

The Government of the country works consistently to create a favorable investment and business climate. In the Doing Business 2018 ranking, Belarus ranks 38 out of 190 countries in ease of doing business.

In the first half of 2018, the real sector of the economy (excluding banks) attracted USD 5.5 billion, including USD 4.4 billion of direct investments. The volume of FDI amounted to USD 1.3 billion on a net basis.

The main contributor is still the Russian Federation, but diversification of capital flows is increasing, the share of countries outside the CIS is growing (Figure 9, 10).

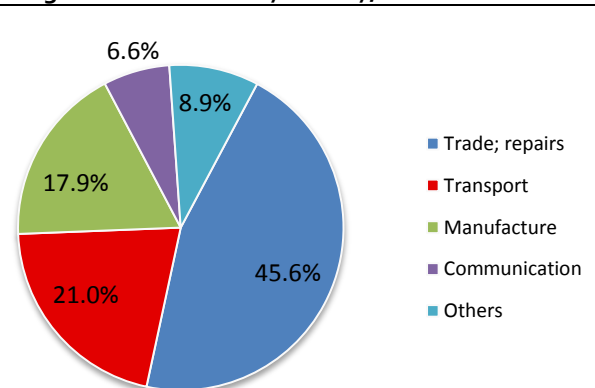
**Figure 9. FDI inflows by country, the first half 2018<sup>1</sup>**



Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy

<sup>1</sup> Excluding banks.

**Figure 10. FDI inflows by industry, the first half 2018<sup>1</sup>**



Source: <http://www.belstat.gov.by>, calculations of the Ministry of Economy



## BALANCE OF PAYMENTS AND INTERNATIONAL RESERVE ASSETS

In the first half of 2018, the balance of payments of the Republic of Belarus was formed with an insignificant deficit of USD 0.4 billion (1.4% of GDP) (Figure 11, 12). The negative balance of the current account grew from 1.3% of GDP to 2.9% of GDP.

Its growth was caused by the deterioration of the balance of foreign trade in goods (to -5% of GDP due to increase of import prices for oil) and the balance of primary incomes (to -6.4% of GDP), which was due to the growth of payments of investment income abroad against the backdrop of economic recovery in the country in 2017.

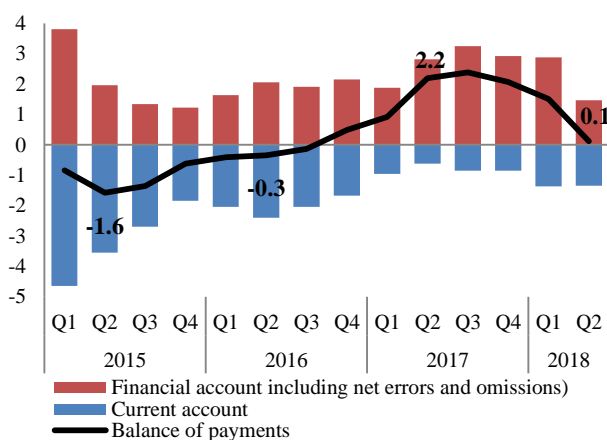
At the same time, this negative impact was largely offset by the growth of the positive balance of foreign trade in services to 6.1% of GDP (due to increased exports of computer and transport services) and of surplus of secondary income to 2.3% of GDP (as a result of the transfer of duties on energy resources as was set in agreements with the Russian Federation).

The inflow of financial resources to the Republic of Belarus from direct foreign investments amounted to 3.9% of GDP against 3.3% in the same period of the previous year.

In the first half of 2018, the Republic of Belarus placed (USD 0.6 billion) and redeemed (USD 0.8 billion) Eurobonds.

In general, the attraction of financial resources on the financial account of the balance of payments amounted to USD 0.3 billion (1.1% of GDP) on a net basis against USD 1.8 billion in the first half of 2017 (7.4% of GDP). Significant amounts of capital raising in 2017 are explained by the need for a scheduled repayment of external liabilities, which maturity was in the first half of 2018.

**Figure 11. Dynamics of the main indicators of the balance of payments, USD billion**

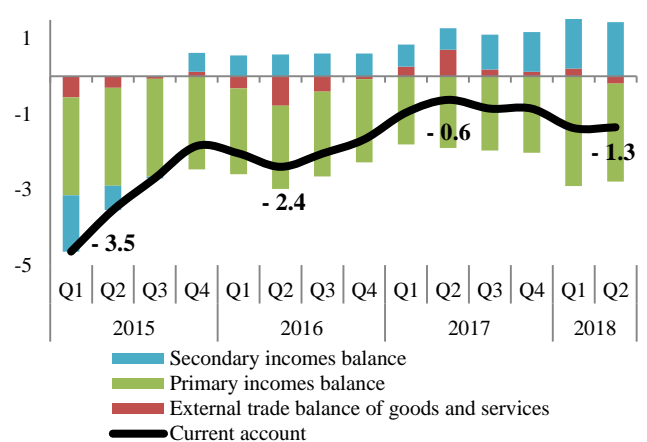


Source: <http://www.nbrb.by>

In the first half of 2018, the international reserve assets amounted to USD 6.8 billion, covering 2.1 months of import of goods and services (Figure 13). The decline is due to the scheduled repayment of external and internal liabilities, as well as a decrease in the value of monetary gold.

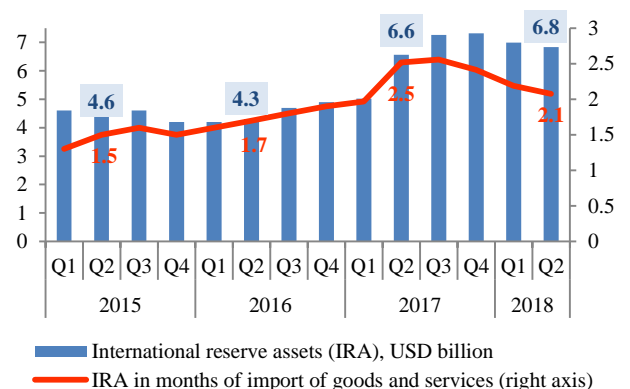
The structure of the international reserve assets is largely dominated by foreign currency assets (56% as of July 1, 2018) and monetary gold (27.4%).

**Figure 12. Dynamics of the main items of the current account, USD billion**



Source: <http://www.nbrb.by>

**Figure 13. International reserve assets (end of period)**



Source: <http://www.nbrb.by>



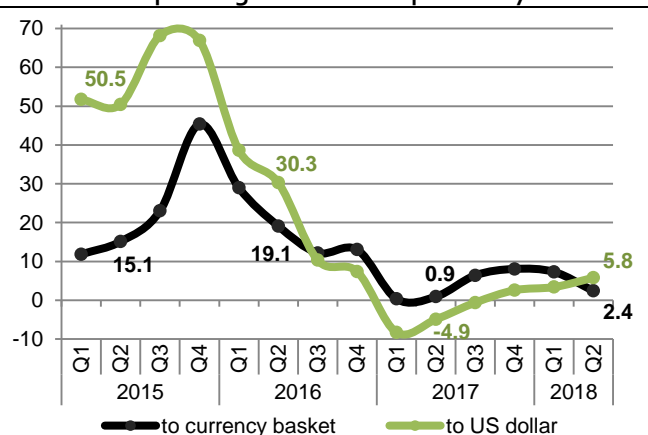
## DOMESTIC CURRENCY MARKET AND CURRENCY LIBERALIZATION

In the first half of 2018, the situation in the domestic foreign exchange market was characterized by a net supply of foreign currency mainly from the population. As a result, the dynamics of the exchange rate of the Belarusian ruble was stable. The value of the currency basket (calculated at the average official exchange rates of the Belarusian ruble against the USD, euro, and the Russian ruble) decreased by 5.8% in January-June of 2018 (Figure 14).

Formation of the net supply of foreign currency allowed the National Bank of the Republic of Belarus to purchase foreign currency that also contributed to a more restrained decline in the country's gold and currency reserves. The interventions of the National Bank of the Republic of Belarus were conducted with a view to smooth the excessive volatility of the Belarusian ruble exchange rate and did not impede its fundamental trend.

The share of the foreign currency component in the assets and liabilities of the banking sector decreased (Figure 15). The gradual increase in the required reserves ratio for borrowed funds in foreign currency (from 7.5% at the beginning of 2017 to 17% at the beginning of 2018), as well as changes in classification and formation of special reserves for covering possible losses on loans in foreign currency that are not secured by foreign exchange receipts for timely and full repayment of the debt by the borrower, contributed to the reduction of dollarization of financial contracts.

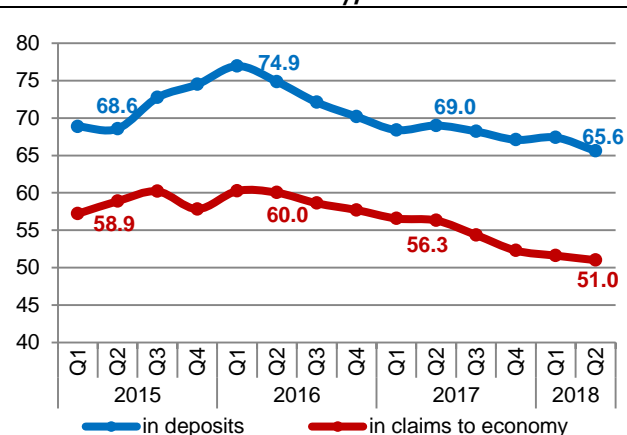
**Figure 14. The growth rate of the weighted average official rate of the Belarusian ruble, % month to corresponding month of the previous year**



\* the basket of foreign currencies was calculated using weights of foreign currencies as of December 2017.

Source: <http://www.nbrb.by>

**Figure 15. The share of the foreign currency component in banks' deposits and banks' claims to economy, %**



Source: <http://www.nbrb.by>

In the first half of 2018, measures were continued to liberalize foreign exchange relations, the implementation of which was initiated in 2017.

The amount of mandatory sale of foreign currency earnings by legal resident entities was 10% in the first half of 2018. After the entry into the force of the Resolution of the Board of the National Bank dated April 11, 2018, work continued to abolish the target purchase of foreign currency by legal entities - residents. Since August 3, 2018, in accordance with the Decree of the President of the Republic of Belarus of July 31, 2018, No. 301 On the Cancellation of Mandatory Sale of Foreign Currency, the requirement to conduct mandatory sale of foreign currency proceeds by legal entities and individual entrepreneurs, the residents of the Republic of Belarus, was canceled.



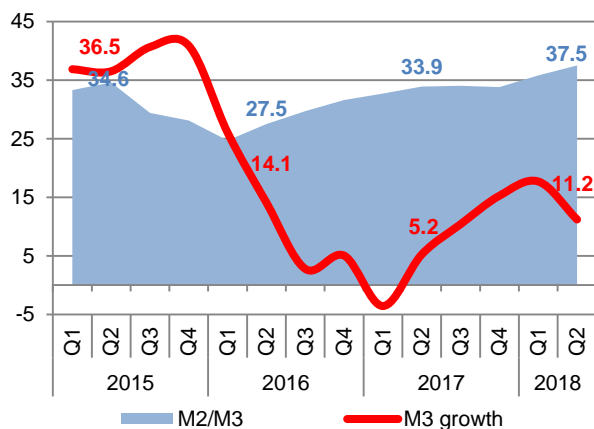
## MONETARY POLICY

In the first half of 2018 to achieve the main goal of the monetary policy – to reduce inflation – the National Bank of the Republic of Belarus continued to control the money supply using primarily open market operations to regulate banking liquidity. The average broad money supply increased by 11.2% y/y in June 2018 with a 12-16% intermediate target set for the year (Figure 16). As a consequence of the measures for de-dollarization of the economy, the growth of average domestic money supply was 23.2% y/y in June 2018 (23.2% in December of 2017), which reflects the measures taken within the framework of the de-dollarization of the economy and positively affects the currency structure of the money supply. In the first half of 2018, the level of liquidity of the banking system was close to the neutral level, with periodic deviations both to negative and positive side.

The conducted monetary policy in terms of recovering consumer demand and stability of the national currency exchange rate contributed to a further inflation slowdown. In June of 2018, the growth in consumer prices updated the historical minimum and was 4.1% (6.4% a year earlier) (Figure 18). Inflation expectations based on enterprise monitoring data are slowing down. In June 2018, compared to December 2017, the share of respondents expecting an acceleration of inflationary processes declined (Figure 19).

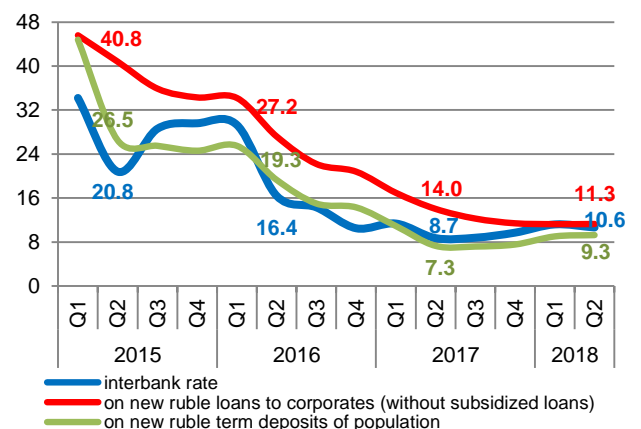
Reducing inflation and maintaining stability in the domestic foreign exchange market allowed the National Bank of the Republic of Belarus to reduce interest rates in the national currency. During the first half of 2018, the refinancing rate decreased from 11 to 10% per annum, the rates on operations of current liquidity support of banks – from 12 to 11.5% per annum, liquidity withdrawals – stayed at the level of 8% per annum. In June 2018 interest rates for new loans to legal entities averaged to 11.3% per annum (in December of 2017 – 11.4% per annum), for new term deposits of individuals – 9.3% per annum (in December of 2017 – 7.5% per annum) (Figure 17).

Figure 16. Increase in average broad money,%



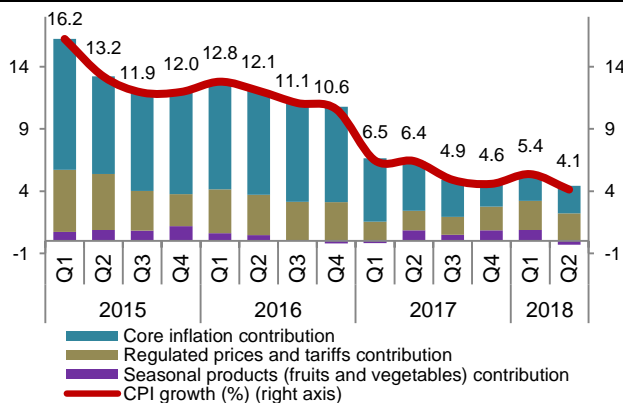
Source: <http://www.nbrb.by>, calculations of the National Bank

Figure 17. Interest rates,% per annum



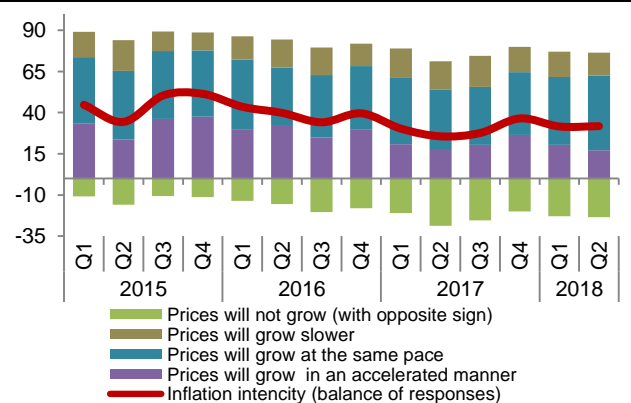
Source: <http://www.nbrb.by>

Figure 18. Inflation decomposition, p.p.



Source: <http://www.nbrb.by>

Figure 19. Inflation expectations for 3 months, share of respondents' answers,%



Source: <http://www.nbrb.by>, calculations of the National Bank





## BANKING SECTOR

As of July 1, 2018, the banking sector of the Republic of Belarus included 24 operating banks. 19 banks had foreign capital, from which 14 banks had the share of foreign investors over 50% in the authorized fund, including 4 banks with 100% foreign capital. There were 5 representative offices of foreign banks in Belarus (Russian – 2, Chinese – 1, German – 1, and a representative of the Interstate Bank).

In January-June of 2018, the total registered authorized fund of operating banks increased by 25.4 million rubles and amounted to 5,207.3 million rubles or about USD 2.6 billion in equivalent as of July 1, 2018. The assets of operating banks amounted to 66,107.2 million rubles (decrease by 0.7% for January-June of 2018). In the result of the de-dollarization policy of the National Bank, the share of assets in foreign currency decreased from 56% as of January 1, 2018, to 54.3% as of July 1, 2018. The volume of regulatory capital of operating banks amounted to 10,191.6 million rubles as of July 1, 2018, and increased by 338.5 million rubles, or by 3.4% in nominal value since the beginning of 2018. The bulk of the capital (72.4%) was concentrated in the five largest banks. For 6 months of 2018, all commercial banks had a profit of 493.9 million rubles (449.7 million rubles for 6 months of 2017).

The decrease in the cost of credit resources contributed to the growth of customers' and banks' debts on credits and other active operations, which increased by 4% in January-June of 2018 and amounted to 43,947.6 million rubles as of July 1, 2018 (42,249.8 million rubles as of January 1, 2018).

In the first half of 2018 the banking sector remained stable against the most significant risks. Overall, the key financial stability and soundness indicators met the requirements (table). The capital adequacy ratio in average for the banking system remained high (18.6% as of July 1, 2018), compared to the reference value set by the regulator for an individual bank at a level of not less than 10.0% (with a conservation buffer – 11.875%).

In the second quarter of 2018, the new edition of the resolution of the Board of the National Bank of the Republic of Belarus came into the force, according to which the term "non-performing assets" (NPL) was introduced. Non-performing assets include assets subject to credit risk classified in V-VI risk groups as well as restructured debt classified in IV-VI risk groups. As of July 1, 2018, non-performing assets of acting banks amounted to 1,848.7 million rubles. The share of non-performing assets in assets subject to credit risk was 3.73%. The special reserve for covering possible losses on assets subject to credit risk was formed at 100% (actual reserve to the estimated) as of July 1, 2018. The value of the leverage in operating banks was at 11.3% (the regulatory level is not less than 3%).

An improvement of banking supervision continued in the banking sector. Based on the recommendations for assessing the economic capital of banks, developed by the Basel Committee on Banking Supervision, the National Bank has established requirements for the organization of internal procedures for assessing capital adequacy in banks, including identification of significant risks, calculation of available and economic capital, capital adequacy assessment, use of economic capital and appropriate management reporting.

Indicators	01.01.2018	01.07.2018
Authorized capital (registered), million rubles	5,181.9	5,207.3
Regulatory capital, million rubles	9,853.1	10,191.6
Regulatory capital adequacy, %	18.5	18.6
Profit, million rubles	886.7	493.9
Profitability of assets, %	1.36	1.38
Profitability of regulatory capital, %	9.55	9.50
Share of non-performing assets in the assets subject to credit risk, %	–	3.73
Adequacy of the provision for assets subject to credit risk, %	100.0	100.0





## GOVERNMENT BUDGET

In the first half of 2018, the execution of the republican and local budgets was stable, with some excess of the planned indicators. This was mainly due to the excess of the forecast parameters of social and economic development and favorable foreign economic conditions.

In the first half of the year, the main share (77.4%) in the structure of incomes of the Republican budget was occupied by tax revenues, the bulk of which (33.7%) was provided by VAT revenues. The growth of revenues of the Republican budget was 14.7% in real terms. Expenditures of the Republican budget in January-June increased by 2.4% in real terms. Expenditures on social activities occupied a significant share (20.4%) in the financed expenditures. Expenses for supporting the national economy in the form of reimbursement of the part of interest for bank loans and compensation banks' losses on concessional loans granted to business entities amounted to 309.2 million rubles, of which 46.2% was spent on agriculture.

In general, the Republican budget was executed with a surplus of 4.8% of GDP in the first half of the year. In accordance with Article 12 of the Law of the Republic of Belarus On the Republican Budget for 2018, the surplus of the Republican budget formed from the export customs duties on oil products in the amount of 1,012.7 million rubles was aimed at paying off a part of public debt of the Republic of Belarus. The remaining part of the surplus (1,684.9 million rubles) retained in the budget balances to finance the forthcoming expenditures.

In the first half of the year, there was a surplus in the execution of the Consolidated budget (3,075.2 million rubles, or 5.5% of GDP) and the budget of the general government (3,408.7 million rubles, or 6.1% of GDP) (Figure 20).

The updated plan for revenue proceeds into Republican budget for 2018 is of 20.9 billion rubles, for expenditures – 20.4 billion rubles. The Republican budget for 2018, as well as for 2017, is formed on the basis of a conservative scenario of economic development, implying more restrained economic growth.

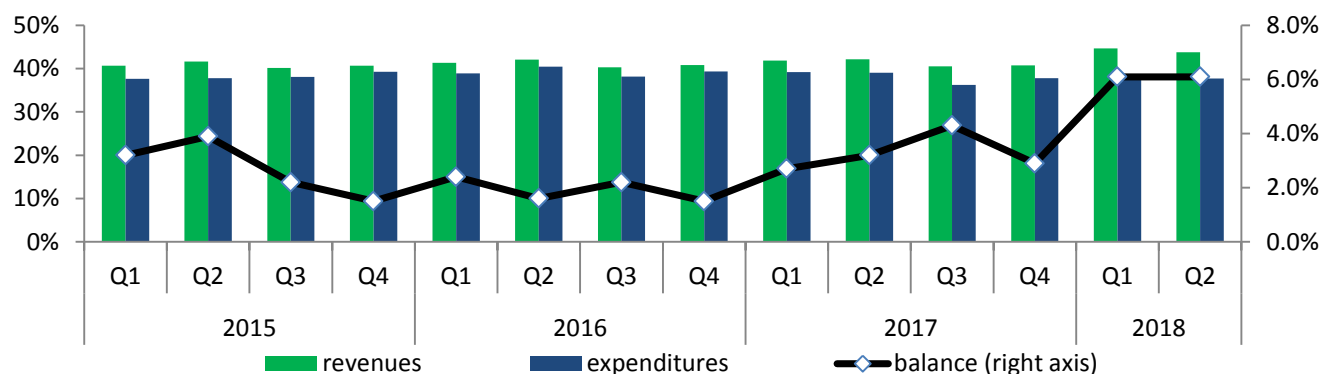
The updated plan of the general government budget for 2018 assumes the revenues proceeds in the amount of 45.9 billion rubles and expenditures in the amount of 45.3 billion rubles.

In order to achieve a goal on a long-term balance and stability of the budgetary system in the Republic of Belarus, the following fiscal rules continue to be applied in 2018:

repayment of a part of debt obligations from non-debt sources, first of all, at the expense of the surplus of the Republican budget formed by receipts of export customs duties on oil products;

budget spending cap (in terms of moratorium on new taxes and increasing the rates of current payments) to ensure the formation and execution of the budget with a surplus.

Figure 20. General government budget, % of GDP



Source: <http://www.minfin.gov.by>



## PUBLIC DEBT

As a result of the first half of 2018, the public debt of the Republic of Belarus amounted to 42.0 billion rubles or 36.7% of GDP, including external public debt 28.6% of GDP and domestic public debt 8.1% of GDP (Figure 21), and has decreased by 0.5% (0.2 billion rubles) since the beginning of the year. The main factor in reducing the public debt was the repayment of government bonds, placed on the international financial market in early 2018, in the amount of USD 0.8 billion.

External public debt amounted to USD 16.4 billion as of July 1, 2018, and decreased by USD 0.3 billion or by 1.7% since the beginning of the year.

In January-June 2018, external state loans in the amount of USD 1.2 billion were raised, including from the Government and banks of the Russian Federation (USD 0.5 billion), Chinese banks (USD 0.1 billion), other creditors. Also in February 2018, the Republic of Belarus placed 12-year Eurobonds on the foreign financial markets in the amount of USD 0.6 billion at a rate of 6.2%.

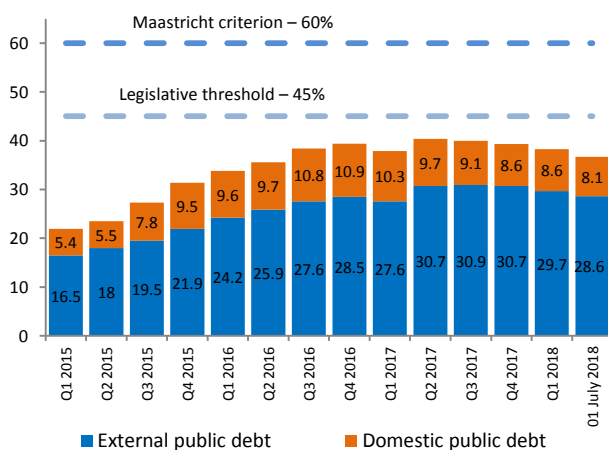
Repayment of external public debt amounted to USD 1.4 billion since early 2018, including USD 0.8 billion of Eurobonds, USD 0.2 billion to banks of the PRC, USD 0.2 billion to the Government of the Russian Federation, USD 0.2 billion to EFSD, as well as to other creditors.

Domestic public debt amounted to 9.3 billion rubles as of July 1, 2018, and increased by 80.2 million rubles or by 0.9% since the beginning of the year.

In January-June of 2018, domestic currency government bonds for legal entities and individuals were placed for a total of USD 255.5 million. Repayment of foreign currency and ruble government bonds for legal entities and individuals was in the amount of USD 190.6 million and 23.1 million rubles.

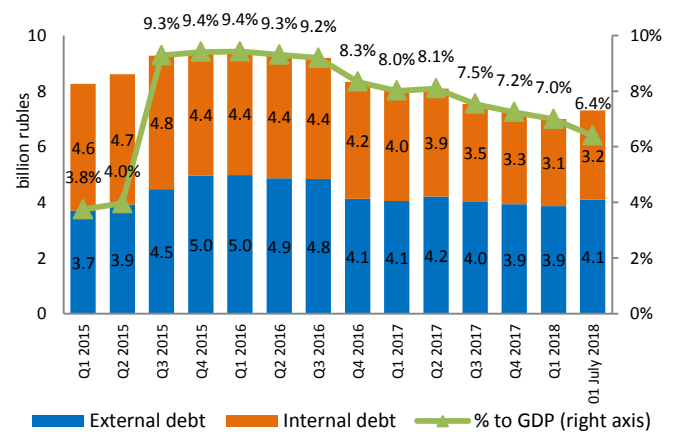
As of July 1, 2018, the debt guaranteed by the Government of the Republic of Belarus amounted to 7.3 billion rubles or 6.4% of GDP and decreased by 0.47 billion rubles from the beginning of 2018, including, external debt guaranteed by the Republic of Belarus was 3.6% of GDP, domestic debt guaranteed by the Republic of Belarus was 2.8% of GDP (Figure 22).

Figure 21. Public debt, % of GDP



Source: <http://www.minfin.gov.by>

Figure 22. Public guaranteed debt



Source: <http://www.minfin.gov.by>

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