

Belarus Business Forecast Report Q1 2015

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Abstracts

Core Views

The ongoing crisis in Ukraine will ensure support for President Alexander Lukashenko remains robust in the run up to the 2015 presidential election. Opinion polls indicate voters prefer the stability engendered by the regime to the uncertainty following the ousting of the president, and we believe the government will continue to divide its focus between closer Russian and EU relations.

The Belarusian economy will receive a boost over the remainder of 2014 and into 2015 as agricultural exports to Russia increase in the wake of the Kremlin's ban on Western food imports. Nevertheless, the damage done to the Russian economy by the tit-for-tat sanctions will feed through into declining investment into Belarus and a fall in export demand beyond the initial one-year timeframe for the import ban.

Consumer price inflation in Belarus will remain elevated in the quarters ahead as Russia's ban on the import of foodstuffs from the EU and other Western states results in higher export volumes to Russia, but a constriction in domestic supply.

Major Forecast Changes

In light of the close economic and political relationship between Belarus and Russia, geographic proximity and already entrenched agricultural bilateral trade links, we believe exports to Russia (Belarus' largest export market) will increase over 2015. As a result we have revised up our real GDP growth forecast for 2014 from 0.9% to 1.0% (still well below the optimistic 2.0% target set by President Alexander Lukashenko), but we hold to our forecast of 1.5% in 2016.

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CHAPTER 1: POLITICAL OUTLOOK

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Little Threat To Regime Stability

Belarus will remain on a stable political trajectory in the run-up to presidential elections in November 2015, as the state continues to prevent the formation of any coherent opposition movements. The ongoing crisis in Ukraine will also bolster support for the incumbent, as Belarusians prioritise national stability over democratisation.

Table: Political Overview

Long-Term Political Outlook
Focus Remains On Russia

Belarus' long-term political stability is jeopardised as a result of the country's lack of institutional development beyond the executive branch. Consequently, while our core scenario is for President Alexander Lukashenko's regime to maintain its grip on power over the long term, we do not rule out the possibility of growing public dissatisfaction resulting in a sudden change of leadership or direction. The most likely spark for any public unrest is the November 2015 presidential election, with large protests erupting following the 2010 poll. We believe the country's greatest challenge over the coming decade will stem from the regime's efforts to diversify its foreign policy agenda while maintaining strong links with Russia.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Index
Economic Activity
Flagging Competitiveness To Cap Growth

Belarus' over-valued currency and unsustainable wage growth will continue to harm its international competitiveness over the coming years. In addition, the government's huge footprint in the economy and the country's narrow industrial base will ensure that fixed

investment in Belarus remains weak.

Table: GDP Contribution To Growth

Balance Of Payments

No Escape From C/A Deficit

Belarus' current account deficit will remain a key risk to macro stability over the coming years as an overvalued currency fuels imports and hurts competitiveness. Low FX reserves and an almost complete reliance on Russian finance will increase the country's external vulnerability.

Table: Current Account

Fiscal Policy

Budget Deficit To Widen

Belarus will post widening fiscal deficits over the coming years, as the government struggles to curb public sector wage growth and push ahead with the privatisation of state-owned companies. Nevertheless, continued support from Russia will prevent a significant deterioration in Belarus' fiscal accounts.

Table: Fiscal Policy

Monetary Policy

High Inflation Here To Stay

Inflation will remain extremely high in Belarus over the coming quarters as the government chooses to keep interest rates relatively low to support economic activity. In addition, both rapid wage growth and increased Russian demand for Belarusian food products will continue to drive up domestic prices.

Table: Monetary Policy

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We remain downbeat on Belarus' long-term growth potential on the back of the large footprint of the state on the economy, which will stifle productivity and deter private fixed investment. We do, however, expect the country to pursue a modest degree of political liberalisation, although we caution that meaningful democratisation is unlikely and that Moscow will remain Minsk's principal benefactor.

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