

Belarus Business Forecast Report Q3 2014

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Abstracts

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Core Views

Belarusian President Alexander Lukashenko's position will remain strong in the years ahead, as the violence of the Ukraine crisis will continue to dampen support for the opposition, and entry to the Eurasian Economic Union in June ensures a continuation of Russian economic assistance.

Belarus will run a small budget deficit in 2014 and 2015, as a preelection boost to expenditure mitigates the positive impact of an increase in refined oil product export revenue. Over the longer term we highlight the risk posed to government finances by a sustained increase in public sector wages.

Belarus will remain closely linked to the Russian economy in 2014 and 2015 as a result of its renewed geopolitical importance and Eurasian Economic Union membership. Incentives offered by Russia in the wake of the Ukraine crisis will support low growth in 2014 and 2015, but without structural reform of state-owned firms real GDP growth will fail to hit pre-crisis levels.

Major Forecast Changes

We believe EEU membership, combined with Kremlin concerns about the potential for a Belarusian pivot Westwards, will ensure the maintenance of favourable trade terms for Belarus with regard to hydrocarbons. This will support government revenues, which in turn will sustain subdued but stable real GDP growth, as government current and capital spending increase. As a result we have revised up our forecasts for real GDP growth in 2014 and 2015, from -0.5% and 0.3% to 0.1% and 0.7% respectively.

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Lukashenko's Power Entrenched By Fears Of Ukraine Violence

Belarusian President Alexander Lukashenko's position will remain strong in the years ahead as the violence of the Ukraine crisis will continue to dampen support for the opposition, and entry to the Eurasian Economic Union in May ensures a continuation of Russian economic assistance.

Table: Political Overview

Long-Term Political Outlook

Focus Remains On Russia

Belarus's long-term political stability is jeopardised by 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 hold 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 of 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 Ratings

Economic Activity

Economy To Remain Tied To Russia

Belarus will remain closely linked to the Russian economy in 2014 and 2015 as a result of its renewed geopolitical importance and Eurasian Economic Union membership. Incentives offered by Russia in the wake of the Ukraine crisis will support low growth in 2014 and 2015, but without structural reform of state-owned firms real GDP growth will fail to

hit pre-crisis levels.

Table: Economic Activity

Balance Of Payments

Current Account Deficit To Remain

Russia's provision of a USD2.0bn loan to Belarus in September will ease pressure on the rouble and negate the risk of a balance of payments crisis in the next two years. However, anticompetitive exports and weak external demand from key markets will see a sizeable current account deficit remain in place over the course of 2014 and 2015.

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Finances Under Pressure Despite 2015 Revenue Boost

Belarus will run a small budget deficit in 2014 and 2015 as a pre-election boost to expenditure mitigates the positive impact of an increase in refined oil product export revenue. Over the longer term we highlight the risk posed to government finances by a sustained increase in public sector wages.

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Inflation To Remain Among Highest Globally

Belarusian consumer price inflation will remain elevated over the next two years due to strong public sector wage growth and gas imports from Russia becoming more costly. Fundamentally the pro-growth bias of the nominally independent central bank means our outlook for consumer price growth remains to the upside.

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