Белорусский экономический
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Belarusian Economic Research
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Belarus 2020:
COVID-19 and the Economy

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RAEX

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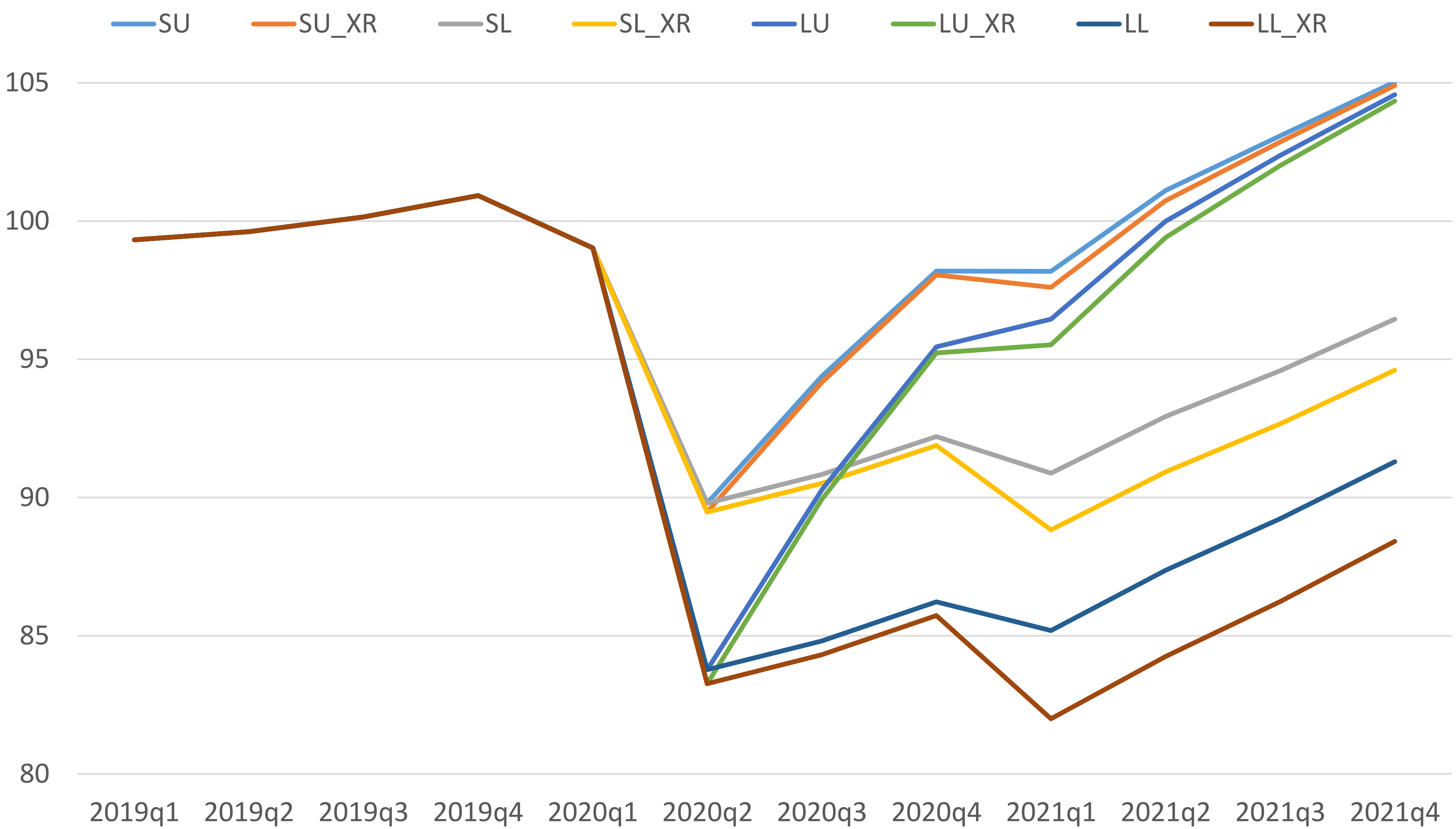
DSGE estimates of GDP (Y) and household consumption (C) growth rates given assumptions on demand shock (S-small, L-large; U and L-shape recovery

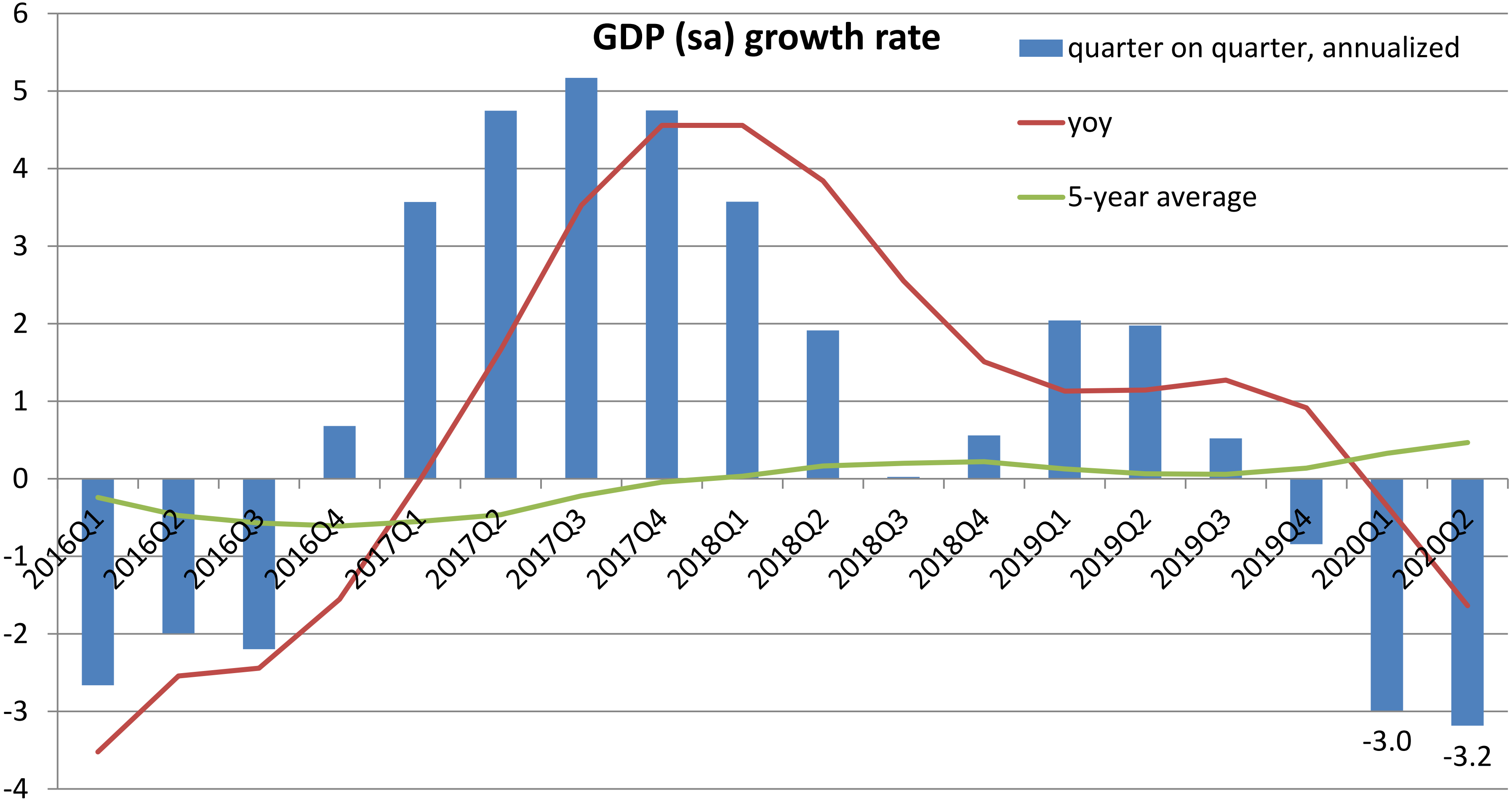
Indicative projections of GDP and household consumption growth rates under different scenarios
(% to the corresponding period of the previous year)

Scenario	SU				SL				LU				LL			
	Stable XR		XR shock		Stable XR		XR shock		Stable XR		XR shock		Stable XR		XR shock	
	Y	C	Y	C	Y	C	Y	C	Y	C	Y	C	Y	C	Y	C
2020q1 (fact/estimate)	-0.3	7.5	-0.3	7.5	-0.3	7.5	-0.3	7.5	-0.3	7.5	-0.3	7.5	-0.3	7.5	-0.3	7.5
2020q2	-9.9	0.2	-10.2	-0.5	-9.9	0.2	-10.2	-0.5	-15.9	-1.4	-16.4	-2.5	-15.9	-1.4	-16.4	-2.5
2020q3	-5.8	-1.9	-6.0	-2.8	-9.3	-2.4	-9.6	-3.6	-9.9	-4.0	-10.2	-5.5	-15.3	-4.9	-15.8	-6.6
2020q4	-2.7	-2.9	-2.8	-3.9	-8.6	-3.7	-9.0	-4.9	-5.4	-5.1	-5.6	-6.6	-14.6	-6.3	-15.1	-8.2
2021q1	-0.8	-6.4	-1.4	-7.6	-8.2	-7.5	-10.3	-9.0	-2.6	-8.3	-3.5	-10.2	-14.0	-10.0	-17.2	-12.4
2021q2	12.6	-0.2	12.6	-0.6	3.5	-1.9	1.6	-2.8	19.4	-0.5	19.4	-1.1	4.3	-3.0	1.2	-4.6
2021q3	9.2	3.4	9.2	3.6	4.1	1.8	2.4	1.3	13.4	4.2	13.4	4.3	5.2	1.7	2.3	0.8
2021q4	7.0	4.4	7.0	4.7	4.6	2.5	3.0	2.1	9.6	5.5	9.6	6.0	5.9	2.6	3.1	1.9
2020	**-4.7**	**0.6**	**-4.9**	**-0.1**	**-7.2**	**0.2**	**-7.4**	**-0.5**	**-8.0**	**-0.9**	**-8.3**	**-2.0**	**-11.8**	**-1.5**	**-12.2**	**-2.7**
2021	**7.0**	**0.3**	**6.8**	**0.0**	**1.0**	**-1.3**	**-0.8**	**-2.2**	**9.7**	**0.1**	**9.5**	**-0.4**	**0.2**	**-2.3**	**-2.9**	**-3.7**

Visualization of scenarios: Y (GDP), 2019=100



Actual GDP path: the recession is much lower than expected



Are we out of the woods?

- The size of the external demand shock seems to be close to the S-scenario assumptions (roughly 20% of external demand shock and around 5% of domestic demand in 2020-Q2)

- GDP contracted only by 2.9% (yoy) in 2020-Q2 (after 0.2% drop in 2020-Q1; in 2020-1H the fall is only 1.7%)

- Has the danger of a deep recession passed? Can we expect further recovery (in the case of the global recovery)?

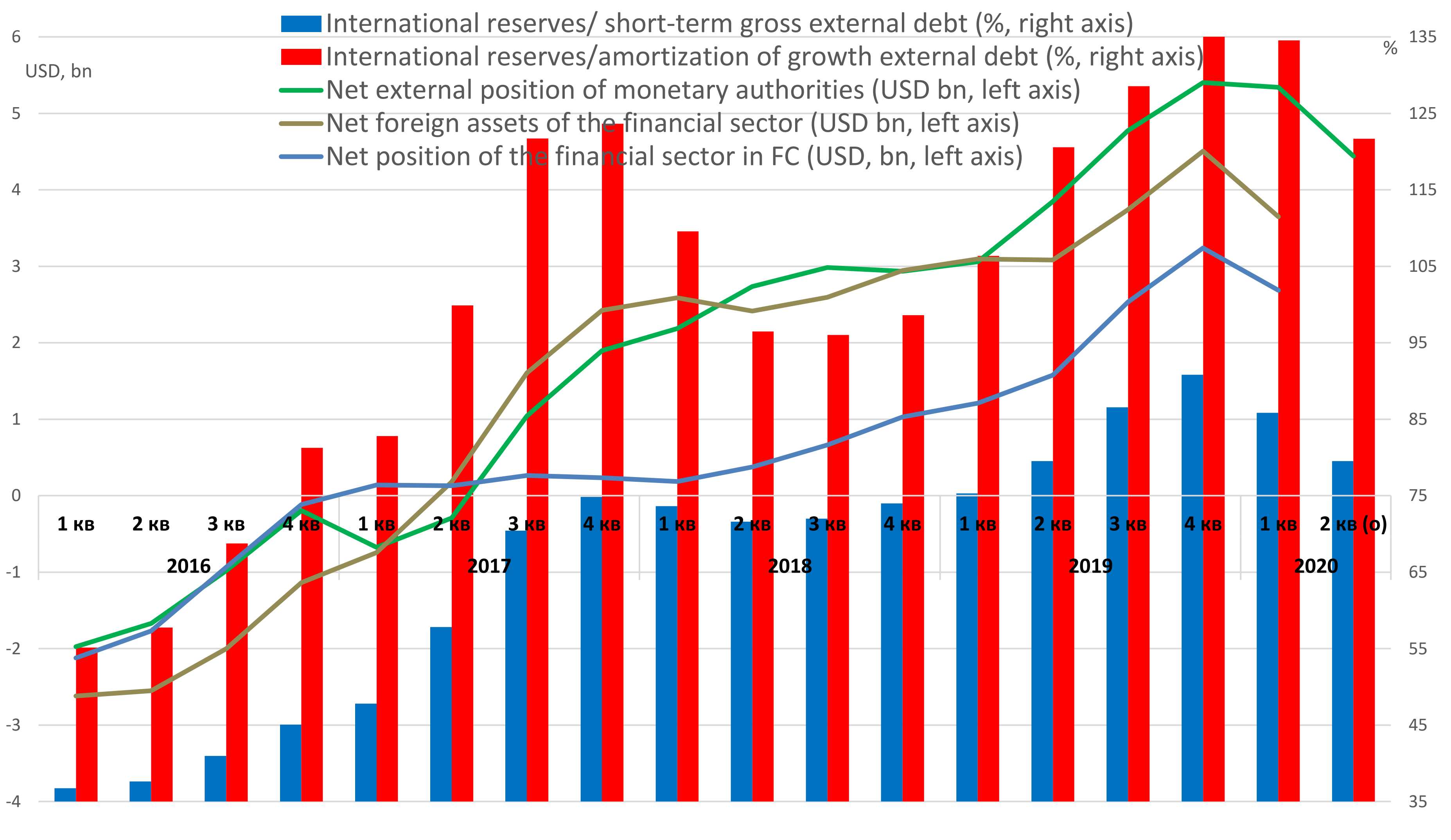
Why actual GDP path is much better than expected?

- In 2020-Q2 SOEs were pushed to maintain production despite essential demand downturn (through rapid growth of inventories)
- No layoffs – part-time work and minimally paid vacations instead
- SOEs have radically deteriorated their financial state (the deficit of working capital has become an urgent problem for SOEs)
- Banks are reluctant to increasing credit to SOEs (being aware of their systemic weaknesses), even despite liquidity excess
- The government launched numerous bailout programs for SOEs (mainly restructuring old debts) and activated non-conventional measures in order to make banks credit more actively

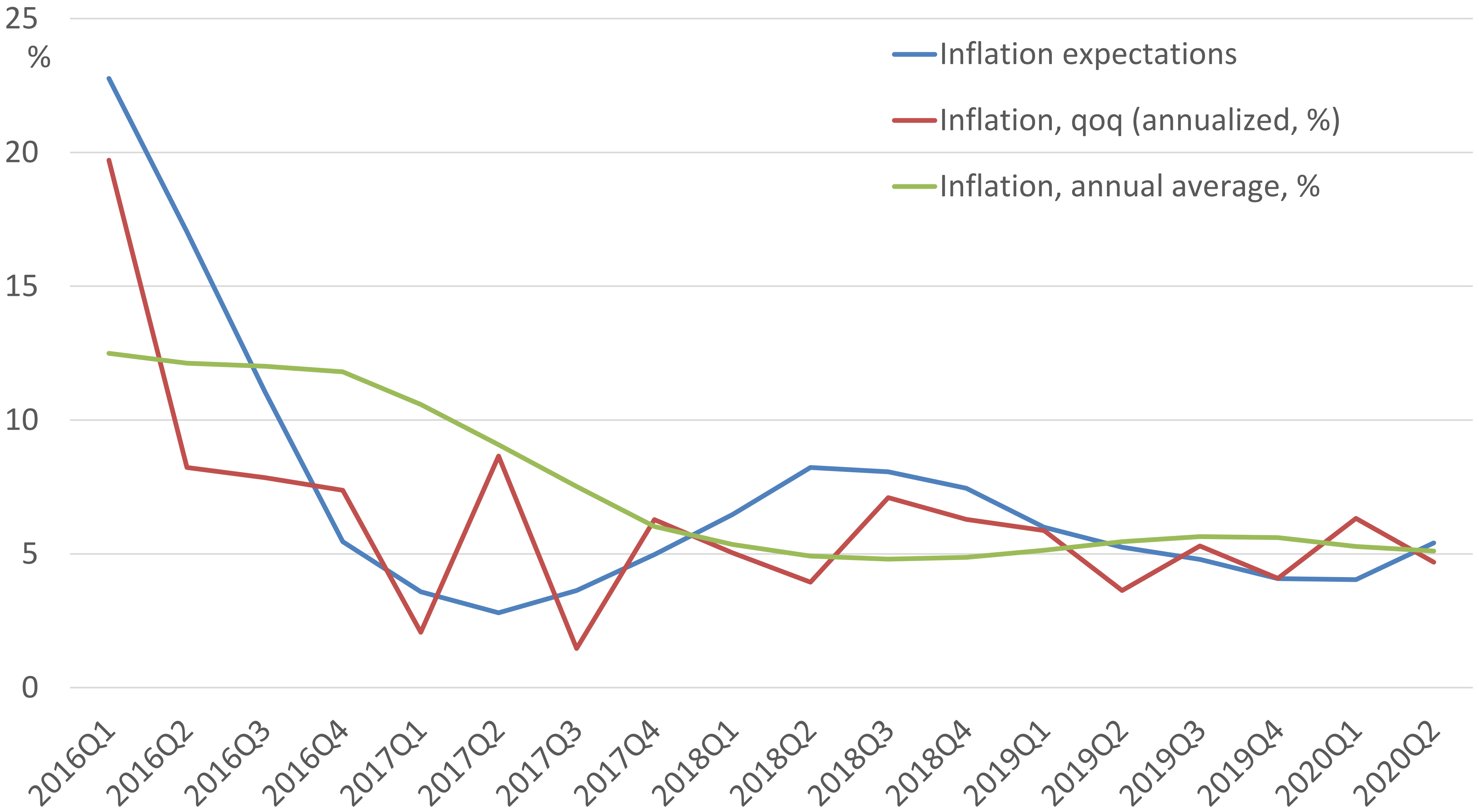
The policy response smooths GDP, but increases financial risks

- SOEs insolvency
  - But the government will do their best to prevent it (would lead to a severe recession)
- NPL growth
  - Is accommodated due to temporary novelties in prudential regulation and the programs of debt restructuring
- Liquidity shortage (both in foreign and domestic currency)
  - In order to prevent the deficit of liquidity in DC, the monetary policy should be soften (but the room for monetary maneuver is miserable because of inflation expectations) ➔ **INFLATION RISKS**
  - In respect to liquidity in FC, the room is even smaller due to huge FC debt overhang
- The growth of non-payments and full-fledged debt crisis
- Weakening sustainability of public debt

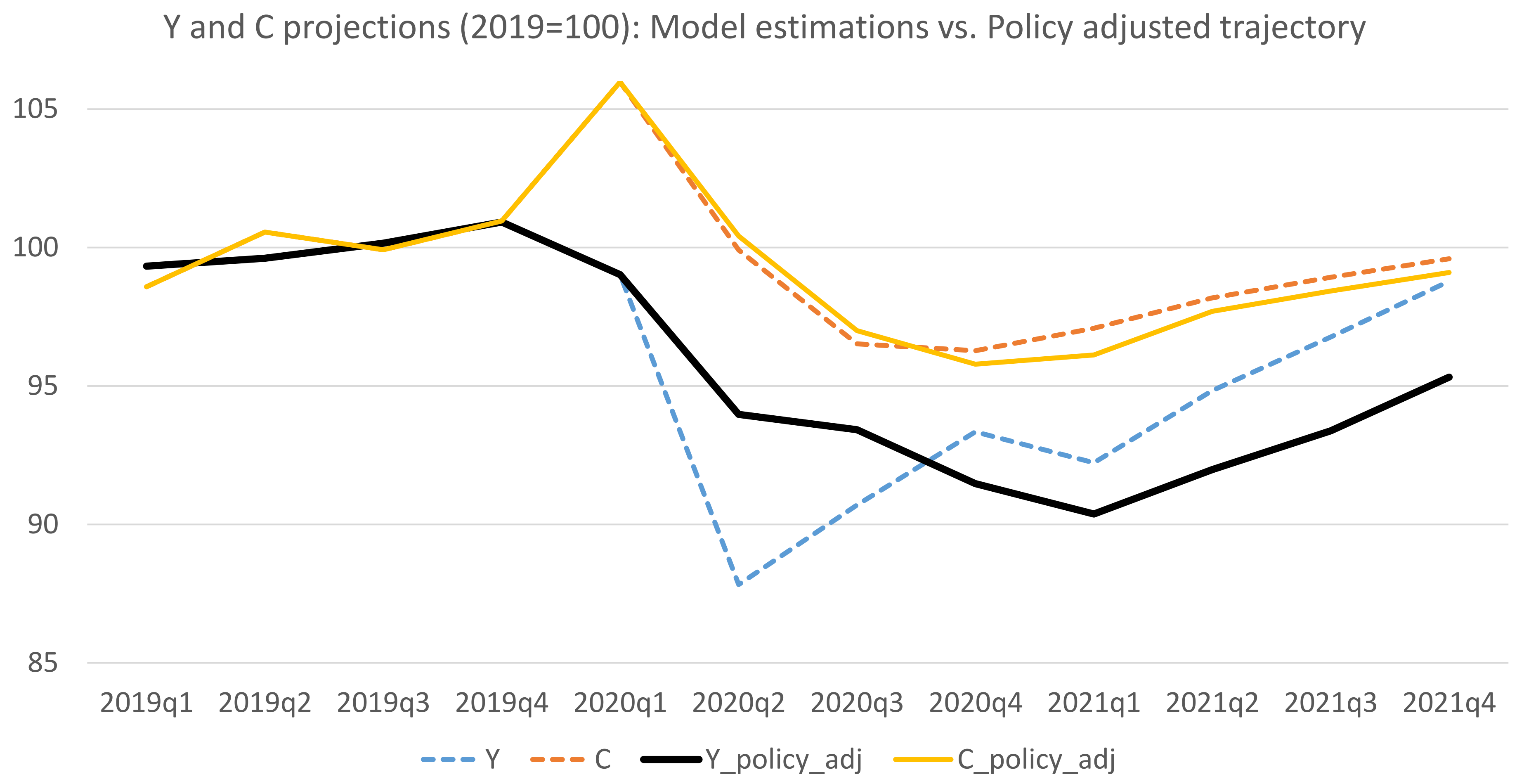
Financial risks are mitigated due to a certain ‘safety-box’: FC liquidity



Inflation and inflation expectations are roughly stable (yet?)



If financial stress have been avoided, a delayed and expanded recession is a likely outcome



The range of scenarios for 2020-2021 is extremely wide

- The best scenario is the recession of about 3.5% in 2020 with a slow recovery afterwards and without severe financial stress
  - Strong global recovery
  - No new non-economic shocks (political, relation with Russia, etc.)
  - Somehow effective policy response

- The worst scenario: severe and prolonged recession with financial turmoil(s)
  - Poor global recovery/a new wave of global downturn
  - Non-economic triggers activating accumulated distortions
  - Poor economic policies