Analytical report:

Monitoring of the situation in the field of economic security of Belarus (February 2018)

Minsk

In early March, a long-announced “big talk” between Aliaksandr Lukashenka and the economic departments of central and local authorities took place. Formally, the meeting was a report of the Government, the National Bank, the regional executive committees and the Minsk city executive committee on the results of economic development for 2017, but in practice it was aimed at determining the strategic and tactical directions for achieving the five-year plan. Despite the formal improvement of most of the indicators of economic development in 2017, the assessment of the current situation by the head of the state was unusually critical. Perhaps for the first time at the highest level the main problems of the country’s economy and the challenges facing were outlined in such form.

The risks to economic growth

The lagging growth of the country’s GDP remains a cornerstone. Thus, over the past seven years, world GDP grew by 25%, while Belarus’ GDP growth was less than 6%. The economic growth at the level of 4.6%, reported by the statistical service in January 2018, doesn’t cause much optimism either. Such dynamics is conditioned by the calculation methodology and was recorded against the background of the economic recession in January-February 2017. It was also connected with the suspension of imports of Russian oil at the beginning of the previous year. Accordingly, the GDP growth since March of this year will most likely tend to decline. Another problem is the uneven dynamics of economic activity in the regions of the country. For the seven years, only the gross regional product of Minsk (+ 28%) and Hrodna (+ 13%) regions has grown substantially. For the rest of the regions, stagnation is typical: the growth in Brest region was only about 5%, in Homel region - 3%, in Vitsebsk region - 2%. And in Mahilyou region a recession was recorded.

A low level of GDP causes the problem of low incomes of the population. The average salary level of BYN 1000, achieved in December 2017, as expected turned out to be temporary, and in January the average salary decreased by BYN 136.3, or 13.7%. At the same time, the median income remains significantly below the average. For example, in November 2017, the median salary was by 24.1% below its average level and amounted to BYN 635. Gradually, the regional stratification of the population’s incomes increases as well. As a result, during the survey conducted by the presidential administration, about 50% of the population stated about the worsening of welfare in 2017, another 40% did not notice its changes. President Lukashenka sees the reason for this in the lack of high-performance jobs, which in turn is connected with the low efficiency of public investment projects and the country’s low attractiveness for investors. At the same time, despite the recognition of the administrative nature of the recent average salary growth, the demand to return it to the level of BYN 1000 by the end of March was announced.

Despite the justification of actual problems, no fundamentally new proposals on their solution have been made. Ignoring the failed experience of major government projects, it was once again proposed to form a new portfolio of investment projects and proposals, this time regional ones. It is noteworthy that a little earlier in February the Government had already developed a list of 100 priority pilot investment projects with a loud announcement “a plan for a new industrialization of regions” for a total amount of USD 4 billion, or an average of USD 40 million per project. At the same time, there are no significant changes in the state sector. Significantly, when talking about the new credit program with the IMF, the Government declares a possible return to it only by 2020-2021. The authorities hope to develop and implement a new mechanism for managing the public sector and to resolve the issue of reimbursement by the population of the costs of housing and communal services only by this time.

The risks of financial volatility

The problem of inflation remains sensitive for the population. Despite another record of its slowdown of 4.5% at an annual rate, the perceived inflation remains much higher than the official one. According to a poll of the National Bank, it was 12.4% per year. Inflation expectations only slightly reduced: in February, the population's expected inflation for the coming year was 11.6% compared to 11.9% a year earlier. The forecasts of the Government for medium-term outlook remain restrained: according to the budget plan for the next 3 years, the refinancing rate in 2020 should be 9%, which is slightly lower than its current level of 10.5%.

This situation creates risks for the monetary sphere against the background of the National Bank's policy of reducing rates. As a part of this policy, in February the National Bank introduced new restrictions on the maximum yield of deposits of the population, connected its upper level depending on the currency of the deposit either to the key rate of the Federal Reserve System, or to the ECB base rate, or to the overnight rate of the Central Bank of Russia. At the same time, foreign currency and BYN deposits showed a slight increase in January (+ 0.3% and + 1.95%, respectively). Even despite the increase in rates for newly issued BYN loans by 0.5 percentage points, demand in the BYN lending market continues to increase (+ 1% in January). The rapid growth in consumer lending over the past year (+ 81%) caused concern among the experts of the Eurasian Stabilization and Development Fund, which suggested that the National Bank should complicate the procedure for issuing loans to the population, in particular returning the obligation to provide a certificate of income. Although the problem with the lack of liquidity as a whole in the banking system was resolved, it is still observed by individual banks. As a result, the National Bank was forced to conduct credit auctions, the total amount of which exceeded BYN 550 million in February, and the yield was about 11.12%. In the situation of exceeding demand, the currency market continues to function over the offer: the net offer of the currency on the part of the population (USD 126.5 million) remains well below the net demand from organizations that in January amounted to USD 265.7 million.

The growth of the national debt, which may be exacerbated by the need to restructure the problematic debts of the public sector, is still a big problem. Since the current situation significantly limits the budget's ability to finance the social sphere, President Lukashenka demanded to reduce the external debt, while maintaining the level of the country's gold and currency reserves. The implementation of this facility in practice will have a deterrent effect on economic growth and is rather difficult. At the same time, in February the Government continued to implement large external borrowings. So, the next issue of sovereign 12-year bonds worth USD 600 million was placed, while the yield on them was a minimum of 6.2%. In general, the desire to attract borrowings for USD 1 billion on foreign markets annually was announced.

The risks to economic independence

The share of criticism at the meeting was targeting the EEU, where there are significant restrictions for free movement of goods. In addition, February was marked by new problems with the supply of Belarusian dairy products to the Russian market. Thus, the Rosselkhoznadzor, motivating its decision with quality problems, imposed a ban on the supply of Belarusian dairy products to Russia from February 26, but later transferred the date of ban start to March 15. This commodity position is quite significant for the Belarusian economy and its export to Russia reaches USD 3 billion. In this case, the ban itself, in the opinion of the Eurasian Economic Commission, violates the legislation of the EEU. It can be assumed that the parties will manage to agree on the continuation of supplies, but Belarus will most likely have to make some concessions. For example, the old idea of Rosselkhoznadzor about quoting supplies of dairy products from Belarus can be brought to the agenda.

During the meeting, the topic of cooperation with Chinese investors in general and the development of the Great Stone industrial park in particular was avoided. In February, the park had a new minority shareholder represented by the German group Duisburger Hafen managing the largest river port in Western Europe, which can be considered a certain success. At the same time, the bulk of the largest Chinese projects so far don’t demonstrate the planned impact. BelGee faced obvious problems in the sale of finished products, Svetlahorsk cellulose-cardboard plant functions in the trial production mode. Attempts to attract direct Chinese investment in operating enterprises have also been unsuccessful so far. From the 22 enterprises, proposed by the Belarusian authorities for the investors to entry into the ownership, only Atlant and Homselmash attracted some interest. However, during preliminary negotiations on the sale of 60-75% of Homselmash shares, Chinese investors put forward tough conditions: reduction of staff by one third, payment of dismissal benefits from the state budget, replacement of senior management with Chinese specialists, which actually blocked a possible deal.

Conclusions

Having achieved stabilization in the financial sector and taking advantage of the restoration of demand in foreign markets, the authorities managed to bring the economy to the growth trajectory. However, the dynamics of GDP growth and household incomes remain insufficient to equalize the level of economic development with neighboring countries. The difference in incomes between regions and groups of the population is another important problem. At the same time, the results of the meeting of the economic authorities and Aliaksandr Lukashenka showed that there are no new ideas for correcting the current situation. The declared continuation of the policy of administrative stimulation of the growth of salaries causes concern as well.