Analytical report:

Monitoring of the situation in the field of economic security of Belarus (July 2019)

Minsk

The risks to economic independence

A series of meetings between Vladimir Putin and Aliaksandr Lukashenka in the second half of July did not bring high-profile results. The heads of the countries declared neither breakthrough agreements nor the existence of fundamental unresolved issues. The details of the negotiations were not made public. At the same time, according to the statements of relevant officials, it can be concluded that the concept of further work on the integration program is agreed. So, it is supposed to complete the elaboration of detailed roadmaps for the main blocks of bilateral relations this autumn. Based on these roadmaps, it is planned to unify national legislation by the middle of next year in order to ensure uniform market rules for Russian and Belarusian business entities from 2021. Moreover, such issues as a single currency are not on the agenda.

Apparently, there are certain advances in issues principle for Belarus. So, according to Russian Ambassador Dmitry Mezentsev, the current gas agreement will continue to operate next year, and the ongoing negotiations are only technical. They have to determine some parameters of the price formula and should be completed by the end of 2019. The readiness of Russia to fully compensate for losses from the supply of low-quality oil, including by increasing the cost of oil transit by Belarus and increasing the volume of its supplies was stated as well. At the same time, there is an issue of Belarus' getting the last tranche of the EFSD loan and the promised intergovernmental Russian loan.

Thus, at present the Belarusian authorities have managed to bring the process of deepening integration, initiated by the Russian leadership, into a routine bureaucratic procedure. The further development of events in this direction reduces the risks to the economic sovereignty of Belarus, but at the same time it will be highly likely to be accompanied by a reduction of the volume of Russian financial support.

The risks of financial instability

In anticipation of the start of the electoral cycle, the authorities began to take steps to soften monetary and budgetary policies.

So, at the next quarterly meeting of the National Bank, they decided to reduce the refinancing rate to a historical minimum: from August 14, its size will decrease from 10% to 9.5%. The decision of the National Bank is in line with global trends: earlier, policy easing was initiated by a number of monetary regulators. So, after the US Federal Reserve cuts from 2.5% to 2.25%, the central banks of Turkey, Brazil, India, South Africa, Indonesia and other countries made a similar decision. In late July, against the background of a slowdown in inflationary processes and weak economic growth, the Central Bank of Russia initiated a decrease in the rate as well (it decreased from 7.5% to 7.25%).

The internal situation in the economy was favourable for such a decision of the National Bank. After a splash in the beginning of the year, inflation continues to slow down, and according to the expectations of the National Bank, it will be no more than 5% by the end of the year. Moreover, according to National Bank estimates, the quarterly price increase, taking into account seasonality, has already reached the level of less than 5 percent target, although before that it exceeded it for 3 quarters in a row. The situation of excess supply in the foreign exchange market is stable: by the end of July, the volume of net sales of foreign currency by the population and organizations exceeded USD 400 million. Due to this factor, the size of foreign exchange reserves as of August 1 reached a historic maximum, exceeding the level of USD 8.6 billion. BYN deposits steadily grow (in annual terms for the second quarter they increased by 18.5%), and the size of foreign currency deposits remains at the same level. The structure of BYN deposits is also changing in a favour for the authorities: the share of long-term and irrevocable deposits continues to grow (their weight reached 90.4% and 72.6%, respectively), which increases the stability of the banking system against the risks of mass revoke of deposits.

Together with the monetary policy, authorities intend to soften the budget policy by announcing the elaboration of the budget for 2020 with a deficit of BYN 1.4 billion, or about 1.4% of GDP. At the same time, for the fifth year in a row, the budget has been steadily executed with a surplus, and a month ago the Government planned a balanced budget in 2020. The authorities motivate such a change in their policy by the need to increase spending on social needs (in particular, to bring the average wage in the public sector to 80% of the average for the economy) and investment costs (including housing). At the same time, the size of budget revenues in nominal terms will not change due to an increase in losses caused by the tax manoeuvre in Russia.

Authorities expect that measures to soften economic policies will not pose a threat to the financial stability of the economy. So, despite the reduction in the refinancing rate, the National Bank still evaluates its impact on the economy as neutral. It is also emphasized that the planned level of the budget deficit is calculated for the negative scenario of economic development, which takes into account all risks as much as possible. If external conditions are more favourable (for example, an agreement with Russia to at least partially compensate for losses from the tax manoeuvre is reached), the authorities will direct additional revenues to reduce the deficit. The authorities also declare that the issue of servicing the public debt for the next 2 years has been resolved: interest will be paid on the basis of foreign currency treasury deposits accumulated in recent years, and the sources of refinancing of the main payments are determined (Eurobonds, Chinese and Russian loans, gold and foreign exchange reserves).

At the same time, the measures of the authorities objectively reduce the stability of the economy against potential shocks. One of them may be, for example, the weakening of the national currency, the likelihood of which increases with increasing tension in world markets. So, amid the deepening of the trade war between the United States and China in early August, the oil (as well as other commodities) price seriously decreased (to the level of 55-57 USD per barrel of Brent). In addition, in recent months, even according to official estimates, BYN has become too strong (according to the calculations of the National Bank, its exchange rate exceeds the equilibrium rate by 1.1%). In addition, when forecasting inflation dynamics, the National Bank assumes that the growth rate of consumer lending will decrease and wage growth will correspond to an increase in labour productivity. However, at the moment, the dynamics of population incomes still significantly exceeds GDP growth (7.2% versus 1% for the period January-May 2019), and in the pre-election period this trend may continue for political reasons. The inflationary expectations of the population are still significant (according to the latest study of the National Bank, they make up 11.5%), which may be an additional incentive to maintain the growth rate of consumer lending.

The risks for economic growth

Economic growth in the country continues to slow down: in the first half of the year it amounted to 0.9% compared with 1% a month earlier. According to some reports, quarterly growth in the second quarter dropped to 0.5%. At the same time, the key sector of the Belarusian economy - industry - is already balancing on the brink of recession: its growth over the first half of the year was at least 0.1%.

The government blames the failure of the plans for external reasons: problems with the supply of Russian oil, the slowdown of economic growth in Russia, the growth of tension in world markets due to the aggravation of US-Chinese trade wars. These factors led to a reduction in Belarusian exports (minus 2.9% in January-May) and a deterioration in foreign trade. At the same time, the authorities still do not abandon plans for the final growth of GDP for the year by 4%. The Government associates the main hopes for economic recovery with growth in agriculture (against the background of the unfavourable second half of last year, this sector should significantly increase), as well as increased oil refining due to the redistribution of oil supplies. At the same time, according to some estimates, in order to achieve the planned GDP indicator, economic growth in the second half of the year should reach 6.8%, which is very unlikely.

The optimism of the Government for the remaining months of this year strangely contrasts with its own pessimism for 2020. The preliminary targets for the next year, published by the authorities, were modest, especially given the planned presidential election. So, the GDP growth rate is planned at the level of 102.5%, the growth of real incomes of the population – of 2.4%, the export of goods and services – of 3.3%. To achieve more impressive indicators of the Belarusian economy, according to the Government, difficult external conditions will hinder. The Government’s calculations actually document the next failure of the five-year plans: the total economic growth for the period 2016-2020, even with the most favourable forecasts by the authorities, will not reach 10%. Maintaining the current dynamics of the economy, it will be only about 5%. At the same time, the parameters of the five-year forecast were also very modest: GDP growth over the indicated period had to grow by 12-15%. There is a question whether Lukashenka will agree on such parameters for the forecast for 2020, or whether the Government will be tasked with providing more ambitious indicators.

Conclusions

According to some signs, the pressure from Russia on the Belarusian authorities in the matter of intensifying integration processes has weakened. At the same time, the main issues for Belarus to receive Russian financial support are still unresolved. Against the background of the upcoming election campaigns, the authorities are softening economic policy, while the Government’s plans for 2020 turn out to be very restrained.