

Analytical report:
Monitoring of the situation in
the field of economic security
of Belarus (March 2020)

Minsk

The risks for economic growth

The main factor determining the current agenda for the Belarusian economy and the prospects for its development in the medium term is the large-scale crisis caused by the COVID-19 pandemic. As a result of the forced quarantine measures, the global economy as a whole runs the risk of showing a negative result for the first time since 2009, and the peak decline in some developed countries may become the strongest since the Second World War. Statistics appearing for the first quarter already record the move of economic dynamics into the red zone. Thus, the fall in Singapore's GDP, which applied comparatively mild measures to combat coronavirus, amounted to impressive 10.6%. GDP of France, which faced the epidemic only in March, is to fall by 6% according to the estimates of French Central Bank.

Despite the absence of official quarantine and a relatively small number of cases, the consequences of the epidemic have a strong impact on the Belarusian economy. The closure of borders by neighbouring countries and a change in population behaviour have already led to a significant drawdown in the domestic consumer market, especially in the tourism, food service and some retail segments. Thus, according to a study by Colliers Internationals, the decline in tenant revenue in Minsk shopping and entertainment complexes at the end of March, depending on specialization, ranged from 40% (household chemicals) to 97% (children's entertainment centres) in comparison to the level of the beginning of the month. Enterprises of traditional sectors of the economy are also facing serious problems, due to both a drop in external demand (primarily Russian) and a break in technological chains. In the absence of official statistics for March, this can be judged by numerous reports of forced downtime and the expansion of using part-time working at some enterprises.

Further dynamics of the country's economy will overwhelmingly be determined by the course of the pandemic and the situation in the global economy. The basic forecast for the latter suggests that the peak of the sharp recession in the global economy should fall in the second quarter of 2020, and already starting from the third or fourth quarter, active recovery growth can begin. The first evidence of the reality of such a scenario may be the weakening of quarantine measures in some European countries (Austria, Czech Republic, Denmark), which is planned to begin in the second half of April. Confidence in the markets is increased by the active policy of the authorities of developed countries to support their own economies. Thus, the US authorities, along with the monetary measures used during the 2008 crisis (lowering the discount rate to zero and increasing the Fed's asset buyback operations), announced a large-scale program of direct assistance to the population and economy in the amount of USD 2 trillion. The authorities of the EU and Japan plan similar programs.

However, even if the pandemic ends quite soon, the damage from the crisis is expected to be more severe for the economies of developing countries, and the path to sustainable growth will be longer, which fully applies to the Belarusian economy. This is primarily due to the inability of the authorities of such countries to provide substantial financial support to national economies. As a rule, this is explained by relatively scarce reserves, as well as restrictions on increasing the budget deficit and easing monetary policy due to weak currencies and the high cost of borrowed resources. In addition, the

strong dependence of such countries on commodity markets (in the case of Belarus, on oil and potash fertilizers), the recovery of which is expected to be slower, also has a negative effect. For example, according to the forecast of the Centre of Macroeconomic Analysis and Short-term Forecast, under the most probable scenario, involving the active participation of the Russian authorities in helping the economy, Russia's GDP will fall by 2.3-2.5% in 2020 and 0.8-1% in 2021. Modest economic growth is expected only in 2022 at the level of 0.6-1%.

According to BEROC experts, the most optimistic scenario for Belarus is a fall of GDP at the level of no more than 2% in 2020. In particular, this is possible if the duration of the global economic downturn is short, Belarus will be able to restore exports of oil products and potash fertilizers, and the government will implement effective anti-crisis measures. If the situation develops according to an unfavourable scenario, the fall in GDP may exceed 10%, and the unemployment rate may reach 30%.

However, the response of the Belarusian authorities to the rapid deterioration of the situation can hardly be called operational and consistent. In fact, at the moment, the National Bank turned out to be the only state structure that responded to the crisis. It took a number of measures that expand the banks' capabilities in terms of deposit and credit policies, and also temporarily weakened prudential control measures, which should support banks' lending activity in times of crisis. At the same time, measures to support the economy announced by the Government look rather modest and disproportionate to the scale of the problems. So, direct assistance measures were announced only in the amount of BYN 110 million, and in terms of significant regulatory exemptions we are only talking about deferring taxes and rent payments on state property. Nothing is known about the authorities' willingness to expand social benefits for the unemployed and other groups most affected by the crisis, which could require a radical revision of budget expenditures. At the same time, there are the intentions to provide priority support to state-owned enterprises, which may include fiscal and non-fiscal instruments. However, taking into account the experience of 2009, maintaining production volumes amid falling external demand is fraught with an increase in stocks and increased pressure on the BYN exchange rate. Moreover, this approach will lead to deepening structural problems of the economy in the medium term.

At the same time, some emergency measures by the authorities aimed at preventing inflation are harshly criticized by the business community as creating additional financial problems for organizations (in particular, a strict administrative ban on increasing wholesale and retail prices for all goods by no more than 0.5% per month). The authorities do not refuse the steps planned long before the crisis and obviously inappropriate in the current situation: for example, from April 1, the base rental rate for state property was raised, and from May 1, the introduction of a system for the full payment of housing and communal services by "social parasites" is expected.

The achievement of agreements with Russia on oil supplies actually on Belarusian conditions can be considered as only positive news. This was made possible due to a strong drop in demand for Russian oil, the price of which in mid-March fell to the level of USD 10.5 per barrel. As a result, the parties agreed that the premium to Russian oil companies in the amount of USD 4.7 per ton would be compensated from the Russian budget. Starting from April, the volume of deliveries to Belarusian refineries is expected to be 2 million tons per month, which corresponds to their full load of capacities.

However, in the current conditions, Belarusian producers may run into problems with the sale of finished petroleum products, and export revenues to the budget from this sector will be seriously reduced compared to last year.

The risks of financial instability and the risks to economic independence

The development of the global crisis jeopardized and maintained financial stability in Belarus. Traditionally, the foreign exchange market was the first to be hit - the authorities remained faithful to the flexible exchange rate policy that has been pursued since 2015, as a result of which BYN quickly devalued against the USD (by 15% in a month). At the same time, parity with respect to RUB, important for most exporters, has been preserved. However, the flexible BYN exchange rate does not save the record deficit in the foreign exchange market recorded in March. Thus, the net purchase of foreign currency by the population amounted to USD 279 million (the worst result since August 2015), and the net demand of legal entities-residents – to USD 618 million (the worst result since December 2010).

A significant BYN devaluation and a sharp decrease of external and domestic demand threaten the rapid growth of bad debts in the banking system. It is highly likely that in case of aggravation of the situation, the authorities will have to refinance part of such debts from the budget in order to prevent problems in the banking sector. There are no statistics yet on how the BYN weakening affected inflation. However, in the medium term, the devaluation significantly levels the achievements of the authorities in de-dollarizing the economy and complicates the task of lowering rates and inflation.

The risks are rapidly growing for servicing external debt, which at the beginning of the year seemed to be minimal for both the authorities and experts. At the moment, the Government can no longer count on the planned sources of refinancing the public debt. The Eurobonds market has become virtually closed to Belarus, as the current yield on old issues of its bonds has grown significantly and reached 13-16% on some days of March. The attempt to place foreign currency bonds on the domestic market ended in failure: with the announced placement volume of USD 100 million and EUR 100 million, the applications from buyers amounted only to USD 2 million and EUR 2.3 million, respectively. A serious drawdown is also expected in terms of budget foreign exchange earnings, since the export duty on petroleum products decreased following the price of oil. There are no prerequisites for the growth of export of potash fertilizers (in January, sales of this item fell by 33% compared to last year).

In such a situation, gold and foreign exchange reserves, which in recent months stably decreased, may become a key source of repayment of the state debt. At the end of March, a record drop in reserves over the entire sovereign history was recorded - by more than USD 1 billion to the level of USD 7.8 billion. At the same time, formally, the size of the reserves remains sufficient for the country to fulfil its obligations over the next year - the total payments for 2020, already partially funded, should amount to USD 3.9 billion. The S&P agency also points out the sufficient reserves and policy flexibility in its review, which in early April, confirmed the country's credit rating with a stable outlook.

In general, the default of Belarus in the next two years seems unlikely for several reasons. Firstly, developed economies are not interested in fan defaults in developing countries, and as the developed states resolve their own acute problems, they can expand the volume of assistance to the developing ones. The IMF is already ready to launch a

quick loan program for developing countries and low-income countries, under which Belarus can receive up to USD 900 million. Secondly, since Russia and its affiliates remain the key creditor of Belarus (they account for up to 75% of payments on foreign debt), the issue of restructuring the state debt of Belarus actually becomes a matter of bilateral Belarusian-Russian relations. On the one hand, taking into account the experience of numerous negotiations on oil and gas issues, it can be expected that even if there are differences, the parties will come to some consensus. On the other hand, this situation increases the vulnerability of Belarus to pressure from the Russian authorities. One may recall that in a similar situation of an acute currency crisis and a critical level of gold reserves in 2011, the Belarusian authorities were forced to sell Beltransgaz to Russian Gazprom.

Conclusions

The unfolding world crisis caused by the COVID-19 pandemic sharply exacerbated the problems of the Belarusian economy. The scale of the shock for the country's economy promises to be a record since the early 1990s, and may require extraordinary decisions by the authorities to save financial and social stability. At the same time, while the Government continues to take a wait and see attitude, refraining from proactive measures.

