

Analytical report:
Economic security of Belarus
(April 2021)

Minsk

The risks to economic independence

The event of the month was the US decision to unfreeze sanctions against 9 organizations in the petrochemical sector of Belarus. Although the sanctions will formally take effect only from June, they already have an impact on the current activities of these enterprises in a very unexpected way. For example, according to media reports, large Russian oil companies decided to refrain from supplying oil in May to the Naftan (refinery included in the US sanctions list), as they fear to fall under secondary US sanctions. In this regard, it is planned to reduce oil supplies from Russia by pipeline transport by more than 2 times. According to some reports, Naftan also faces difficulties with the sale of finished products: in particular, Ukrainian buyers refuse to purchase bitumen from this Belarusian manufacturer. The strengthening of sanctions and the adoption of the fourth sanction package is also expected from the EU, although the deadline for such a decision is postponed from early May to June.

Thus, tough sanctions pose a serious threat to the stability of the Belarusian economy, creating problems for both exports to key markets, as well as for imports of raw materials and investment goods. At the same time, the adoption of some response measures announced by the Belarusian authorities can only aggravate the situation. Among these measures there are such proposals as the use of repressive measures against foreign companies operating in the country, as well as the closure of transit through Belarus for European carriers. The implementation of such steps will significantly reduce the investment attractiveness of the country not only for Western, but also for Chinese companies. In general, the intensifying sanctions conflict calls into question the value of Belarus as a participant in the Chinese megaproject “New Silk Road”. At the same time, it should be noted that the current reaction of the authorities to Western sanctions is rather restrained: the previously announced counter-sanctions affected the products of only 3 European brands and manufacturers and do not have a significant impact on consumer markets.

In a growing conflict with the EU and the United States, the process of agreeing on the so-called roadmaps for deepening integration within the framework of the so-called “Union state of Belarus and Russia” accelerated. At the request of Prime Minister Raman Halouchanka, the Belarusian authorities endorsed and handed over to Russia for approval 26 out of 28 developed integration roadmaps. At the same time, two other roadmaps - for the tax system and the energy market (including the common oil and gas market) still require some additional work on them as a year ago. It is characteristic that the Belarusian authorities do not say anything about the fate of the last roadmap (previously it was called the “31st card”), which contained such steps as the introduction of a common currency, the creation of supranational bodies and other restrictions on sovereignty.

The risks to economic growth

The current dynamics of the economy is determined by two main multidirectional factors: against the background of a significant increase in demand in foreign markets, domestic demand continues to stagnate. The main driver of growth is still the industry, the growth of which exceeded 9% in March. The most important factors are the growth of such commodity sectors as the production of potash fertilizers (up 42.9% in the first quarter) and petroleum products (up 47.1%), as well as the growth in sales of investment

goods to the vibrant Russian market. At the same time, a recession situation in the domestic market is observed: despite the growth in real incomes of the population (according to official data by 3.3% in January-February), retail turnover has significantly decreased (minus 4.5% in the first quarter), while enterprises are cutting investment costs (minus 12.1% in January-March). A fall is also observed in the construction industry (minus 16%).

As a result, GDP growth in March amounted to 0.9%, compared with an increase of 0.8% in February. The authorities forecast further acceleration of growth to 1.8% in the first half of the year. Regular polls of government bodies and independent research centers do record an improvement in the expectations of economic agents, especially in the industrial sector. The authorities hope to contribute to the further growth of optimism in the economy through the so-called “launching the investment cycle” - it is assumed that after certain state investments and legislative changes, the investment attractiveness of the Belarusian economy for domestic and foreign investors will begin to grow.

At the same time, surveys of small and medium-sized businesses as well as consumers in the market show that the main sources of pessimism include concerns about the regulatory policy of the authorities (higher taxes, tougher inspections, strengthening of other regulatory measures), as well as an increase in administrative and criminal prosecution for political reasons. It is noteworthy that in this part that we can talk about the deterioration of the current situation - the authorities continue to tighten criminal legislation (a new law on the media has been adopted, responsibility for uncoordinated mass events is increased). The restrictions on the consumer market are imposed, increased liability for violations of tax legislation is announced, the steps to restrict the activities of entrepreneurs are already being taken. The strengthening of sanctions tension with Western countries creates similar effect. Accordingly, the further dynamics of GDP will be determined by how much the growing external demand will compensate for the economic pessimism within the country.

The risks of financial instability

In April, the National Bank quite unexpectedly decided to increase refinancing rates and rates on operations for providing and withdrawing liquidity in the market by 0.75 percentage points. The National Bank justifies this decision by accelerating consumer inflation, which amounted to 8.5% in March and may reach 9% by the end of the first half of the year. It is noteworthy that earlier in March, against the background of even greater inflation, the National Bank refrained from revising the refinancing rate, which, according to many analysts, was explained by pressure from the government. The current rate increase is not enough to have a significant impact on the money markets - the market value of money in the economy has long ago pulled away from the refinancing rate and does not show a downward trend. The banking liquidity market continues to operate in a manual mode - the National Bank refuses to provide liquidity on an ongoing basis, and supply at monthly auctions is severely limited. Thus, in April, the National Bank satisfied only about 4% of the demand requested by banks (BYN 50 million out of BYN 1.24 billion) for 180-day BYN loans at a rate of 10.5%. It should be noted that the very decision to tighten the interest rate policy is a symbolic signal for the market. The measures taken by the National Bank should demonstrate that the central bank retains political levers of influence on the current situation, maintaining a balance in the money

markets remains an important task for the authorities and, accordingly, the risks of "turning on the printing press" are exaggerated.

By refraining from instruments of monetary stimulation of the economy, the authorities are actively strengthening the fiscal stimulus. Thus, the consolidated budget continues to be executed with a significant deficit, the size of which reached BYN 1.7 billion in March, or 4.6% of GDP. The main factor behind this deficit was a significant increase in expenditures, including an increase in capital expenditures in real terms by 1.9 times. According to the published medium-term financial program, the authorities plan to maintain a budget deficit for the next 3 years, while its size will gradually decrease to BYN 1.81 billion in 2023. While the issue of the sources for financing the budget deficit is unresolved. This year, the authorities are focusing on spending the previously accumulated budgetary reserves stored in accounts with the National Bank and commercial banks. However, in the future, in order to finance excess expenditures, the government will have to increase borrowings in the foreign and domestic markets.

At the same time, the authorities are experiencing obvious difficulties in attracting external funding. The allocation of the next tranche of the intergovernmental loan from Russia in the amount of USD 500 million is postponed to the end of June 2021, although earlier the authorities expected to receive it by the end of March. There is no clarity about the timing and possible amounts of new borrowings on the Russian market. In such a situation, statistics record a change in the structure of the public debt: the reduction in the size of the external public debt (since the beginning of the year it has decreased by USD 451 million) is completely offset by the growth of the internal public debt (during the same period it increased by BYN 1.89 billion). Since the main buyers of domestic public debt are traditionally banks, this dynamics reduces the availability of credit for the real sector and consumers.

At the same time, according to the results of April, the size of gold and foreign exchange reserves, which play an important role in maintaining the current financial stability, after three months of decline showed a noticeable increase - by USD 338 million to USD 7.28 billion. This dynamics of reserves is largely due to short-term factors: an increase in the cost of gold on world markets, an increase in the sale of foreign currency by legal entities to pay quarterly taxes, annual premiums in the IT sector, and relatively insignificant payments on public debt in April. Accordingly, in the future, we should expect a return to the trend of reducing the gold reserves in the absence of large external borrowings. At the same time, the positive balance of foreign trade is a fundamental factor that stabilizes the country's foreign exchange market and potentially creates a source for the accumulation of reserves by the National Bank. So, according to the estimates of the Ministry of Economy, in the first quarter of 2021 the positive balance of foreign trade in goods and services amounted to almost USD 1 billion.

Conclusions

The strengthening of European sanctions and the use of a mechanism of secondary sanctions by the United States pose serious risks for the financial stability and economic growth of Belarus. These steps will create pressure on the country's balance of payments, worsen the expectations of economic agents, and reduce the investment attractiveness of the economy. In the absence of tough sanctions, the key question will be to what extent

the improving external environment will compensate for the persisting consumer and investment pessimism within the country.

