

**Analytical report:**  
**Economic security of Belarus**  
**(July 2021)**

## **The risks to economic independence**

The risks of expansion and intensification of sanctions began to materialize faster than one previously thought. After Sviatlana Tsikhanouskaya's foreign tour and a number of scandals related to Belarus (the migration crisis on the Belarusian-Lithuanian border, the massive closure of NGOs in the country, the removal of the Belarusian runner Krystsina Tsimanouskaya at the Olympics), on August 9, the United States, Great Britain and Canada announced the adoption of sanctions.

The US sanctions list includes 27 individuals and 17 legal entities, including the largest state-owned company "Belaruskali". At the same time, only in the "Belaruskali" part, the sanctions begin to operate with a delay of 120 days, while with respect to other subjects, the sanctions come into force from the moment of publication. Also, the President of the United States adopted a decree allowing the expansion of sanctions against officials and sectors of the economy, which can become the basis for the introduction of full-fledged sectoral sanctions and the use of the mechanism of secondary sanctions. Despite the relatively small volume of trade (for example, in the first half of the year, the import of Belarusian potash fertilizers to the United States amounted to a little more than USD 90 million), it is the American sanctions that may be the most sensitive for the Belarusian economy. For example, if the American authorities are ready to impose sanctions against "Belaruskali's" counterparties, one can expect a significant reduction in sales of Belarusian potash fertilizers in key markets - Brazil, India and China.

Of the British package of sanctions, the most sensitive are trade restrictions on petroleum products, as well as restrictions on the issue of Belarusian securities and their placement in the UK. Earlier, the United Kingdom, according to Belarusian statistics, was an important buyer of oil products (in 2020, worth more than USD 700 million), and British investors were actively buying Belarusian Eurobonds.

The EU authorities, which announced the emergency meeting of the Interior Ministers of European countries on the situation with illegal migration from Belarus on August 18, may also expand their sanctions in the near future. The authorities of Lithuania, Latvia and Estonia made a corresponding joint appeal. The Lithuanian Foreign Ministry proposes to close the transit of Belarusian potassium through the Baltic ports, to strengthen sanctions against Belavia, to include the Belarusian alcohol industry in the sanctions list.

In a situation of increasing sanctions, the Belarusian authorities are counting on support from Russia. Thus, following the results of the last meeting, Aliaksandr Lukashenka and Vladimir Putin instructed the governments to develop a joint plan to counter the sanctions. According to Prime Minister Raman Halouchanka, Russia's support will completely cover the possible losses of Belarus from sanctions. However, the details of this plan, which make it possible to assess its effectiveness, have not been publicly disclosed at the moment.

Also, after the meeting between Lukashenka and Putin, the first details on oil and gas issues were made public. So, according to official statements, the price of gas for Belarus in 2022 will not exceed the level of the current year. The readiness of the Russian authorities to provide credit support to Belarus in compensation for losses associated with the tax manoeuvre in the oil sector of Russia was also declared. These agreements should

be appreciated in two dimensions. On the one hand, the gas price for Belarus will remain at a level significantly lower than the European average, which will undoubtedly increase the price competitiveness of Belarusian goods on the European market. But at the same time, the problem of price disparity with the Russian regions, which the Belarusian authorities have repeatedly raised, remains unresolved. The proposed Russian credit support is an important guarantor of maintaining financial stability in the country. At the same time, solving the issue of losses from the tax manoeuvre in this way is, in fact, the refusal of the Belarusian authorities from their previous claims, which meant receiving compensation on an ongoing basis.

### **The risks of financial instability**

The key problem for the financial market of the country is the negative expectations of economic agents, which, according to the National Bank, have persisted for five consecutive quarters. The result of this is a violation of the savings process, which manifests itself in the outflow of deposits from the population and, accordingly, an increase in lending rates. Current statistics record a continuing decline in household deposits: in June, fixed-term foreign currency deposits of the population decreased by USD 210 million (more than 5%), and their decline since the beginning of the year reached USD 620 million (more than 13%). The BYN deposits of the population continue to show unstable dynamics: in June they again slightly decreased with an increase since the beginning of the year by a modest 1.6%, which is significantly lower than the inflation rate. At the same time, according to the National Bank, the outflow of deposits may increase against the background of Western sanctions, the impact of which on the financial market of the country is now largely manifested not through the balance of payments, but precisely through the deterioration of expectations.

Accelerating inflation, which reached 9.9% in June, also negatively affects the value of money in the financial market. At the same time, the National Bank revised its opinion on the short-term nature of the surge in prices and raised the annual inflation forecast from 6% to 9%. In such conditions, the National Bank decided to formally tighten monetary policy and raised the refinancing rate from 8.75% to 9.25%, and the rates for providing liquidity to banks from 9.5% to 10.25%. At the same time, the real impact of these parameters on the money market remains insignificant, increasing only the cost of servicing for some categories of previously issued loans. The National Bank is still blocking the operations of providing banks with liquidity on a constantly available basis. At the same time, the allocation of BYN at monthly auctions remains insignificant as before - in July the National Bank provided banks with only BYN 100 million with a total demand of BYN 659 million.

At the same time, a favourable situation in the external sector is a significant support for the financial market. First of all, due to a significant surplus of foreign trade, the situation on the foreign exchange market in July was positive for the National Bank. A significant net supply of foreign currency was generated by legal entities (for example, the net sale of foreign currency by residents in July amounted to USD 336 million, and by non-residents – to USD 55 million). It is also noteworthy that for the first time in 20 months the population became a net seller of foreign exchange (by USD 47 million). In such a situation, the national currency of the country demonstrates some strengthening, and in July the BYN rate against the dollar on some days dropped below the psychological mark of 2.5 BYN/USD. Mainly thanks to the redemption of foreign

currency on the stock exchange, the National Bank was able to increase its gold and foreign exchange reserves in July by USD 33 million, despite significant payments on the state debt this month (about USD 427 million). At the same time, it is still difficult to predict the stability of such a situation due to significant volatility in foreign markets, as well as due to increased sanctions. In addition to that, according to widespread opinion, the “foreign trade miracle” of Belarus will be gradually exhausted in any case due to the end of the period of rapid recovery growth of the world economy.

At the end of June, budget execution again went into the zone of significant deficit, the size of which exceeded BYN 900 million in six months, or more than 1.1% of GDP. At the same time, relative to the previous year, we can talk about a noticeable improvement in the situation: with an increase in budget revenues by 16.5%, expenditures increased by only 10.5%, and, accordingly, the size of the deficit decreased by more than 2 times. The authorities maintain their plans to sharply increase budget expenditures in the second half of the year, bringing the budget deficit by the end of the year to more than BYN 6 billion.

### **The risks to economic growth**

According to the official statistics comparing the cumulative data to the same period last year, the Belarusian economy continues to accelerate. Thus, GDP growth in January-June reached 3.3% compared to 3.1% a month earlier. At the same time, according to the calculations of the EDB, the change in GDP for the month with the elimination of seasonal fluctuations in May and June was about zero.

As before, the main GDP growth is concentrated in export-oriented industries. Thus, the growth in industry exceeds 10.4%, and according to the calculations of the Ministry of Economy, this sector provides 80% of the total growth. Despite the observed outflow of personnel abroad and the general pessimistic sentiments in the industry, the IT sector also shows a significant increase. Thus, the growth of the communications and information sector accelerated to 7.7%, and the export of computer services in January-May increased by almost USD 186 million, or 17.9%, compared to the level of the previous year.

At the same time, domestic consumer and investment demand continues to stagnate. Retail turnover grew by only 0.01%, even to the low level of the previous year. Investments decreased by 7.2%.

The authorities themselves expect a gradual decline in growth, as the government confirms the relevance of its forecast for GDP growth by 1.8% for the whole year. At the same time, according to the approved forecast of socio-economic development, economic growth should accelerate to 6% by 2025, and for the period 2021-2025 it should exceed 20%. The key factors that, according to the authorities' calculations, will be able to ensure such a result, should be the launch of a new investment cycle and the stimulation of domestic consumption. Special attention should be paid to export support, including through financial instruments.

At the same time, in the current situation, we can talk about a noticeable deterioration of the investment climate in the country, which creates problems for the implementation of the authorities' plans. European sanctions increase transaction costs when carrying out export activities by Belarusian companies. Thus, the largest European banks (for example, Raiffeisen Bank) have ceased interaction with state-owned banks

that are on the sanctions list. Small and medium-sized businesses, including those that work in sectors not affected by sanctions, face the problem of receiving payments from abroad. In turn, the authorities are also increasing pressure on private business. Thus, in June, criminal cases were initiated against several iconic private companies in the country - the “21st century” online store (takes up to 40% of the market share), the manufacturer of cosmetics “Modum” and the manufacturer of doors “Yurkas”. Top nomenclature set the task to revise taxes for individual entrepreneurs and small businesses in general and to tighten the administrative regulation. It is stated that it is necessary to take control of the financial flows of companies from High Technologies Park.

Such actions by the authorities will obviously reduce the growth potential of the country’s private sector, which under the previous government was viewed as a key driver of the economy. At the same time, the planned steps of the authorities to improve the efficiency of the public sector still look insufficient. So, once again, it is planned to increase efficiency at the micro level through consolidation, this time by creating state corporations. There is an interesting case of “Belshina”: the way of saving this enterprise was presented to the public by Prime Minister Raman Halouchanka. Thus, it is planned to work out a new strategy for the development of this enterprise, for which foreign industry specialists are also involved. Based on the agreed strategy, the company’s debt to banks will be partially restructured and more favourable conditions for its repayment will be developed. It is assumed that after this the need of the enterprise for financial support from the state will disappear. At the same time, the Prime Minister does not stipulate whether it is planned to change the system of operational management of the enterprise.

### **Conclusions**

Western sanctions, and in particular the introduction of new sanctions by the United States, are the key factor creating significant uncertainty for the Belarusian economy. The financial market continues to function in a stressful situation of prevailing negative expectations, which is accompanied by an outflow of household deposits and a reduction in the resource base of banks. The economy is supported by a favourable external environment, which largely neutralizes negative trends.

