

Analytical report:
Economic security of Belarus
(August 2021)

The risks to economic growth

The country's economy continues to develop under the influence of two oppositely directed factors: a favourable foreign trade environment associated with the recovery growth of the world economy, and sanctions pressure from Western countries. At the same time, the positive factor in the external sector is still more significant.

Thus, Belarusian exports for six months grew by 32.2%, while imports grew by 28.3%, and the foreign trade surplus reached USD 1.7 billion (more than 5% of GDP). Due to external demand, the country's GDP growth for 7 months remained at 3.3%. Although industrial growth slowed slightly (to 9.3% from 10.7% a month earlier), it was offset by an acceleration in the services sector. For example, the growth in the export of IT services for six months exceeded 20% and amounted to almost USD 1.5 billion. The growth of wages in the economy remains at a significant level - in January-July, real wages increased by 5.4% and reached USD 580. At the same time, according to some calculations, unit labor costs in the economy are decreasing, which indicates a balanced nature of the observed growth. The financial indicators of the economy are also improving. Thus, the profit of companies is growing (for 7 months it amounted to BYN 8 billion compared to BYN 3 billion a year earlier), and a weakening of the debt burden on the economy is observed (the ratio of the total debt of enterprises to annual revenue decreased by 3.9 percentage points).

Against the background of favourable current statistics, the authorities also revised plans for annual GDP growth. According to the forecast announced by the minister of economy, GDP growth in Belarus by the end of 2021 should be 3.3% instead of the previously expected 1.8%. A number of factors can impede the realization of the authorities' expectations. So, even according to current statistics, agriculture shows negative dynamics (a decrease by 0.2% in 7 months), and after summing up the results of the harvesting campaign, its failure may deepen.

At the same time, despite favourable external conditions, the situation on the domestic markets remains depressed. Thus, the growth in retail turnover remains extremely insignificant (0.4% in January-July). Weak results are also observed in the markets for long-term purchases: the market for new cars sank by more than 17% even to the level of the previous year. Stagnation is also observed in the residential real estate market in Minsk - against the background of falling average prices, the number of transactions does not show an upward trend. This contrasts with the situation in other countries in the region experiencing a boom in the real estate market. As in previous months, a significant drop is observed in terms of investment costs - in January-July, they declined by 8.3%.

The impact of the sanctions on the economy is still insignificant. At the same time, it will be more and more difficult to assess it due to the fact that the authorities have stopped publishing statistics on the industries the representatives of which have got under the sanctions. Only a few incidents related to the implementation of sanctions are publicly known. So, in the media there is information about the problems with the purchase of raw materials and components from some Belarusian enterprises. The refusal of Western manufacturers to supply engines to BelAZ, which can lead to production disruptions and significantly affect the competitiveness of the Belarusian manufacturer's products, is especially painful. Also, due to the sanctions, the products of BelAZ were confiscated by the Lithuanian customs during transportation to buyers from Klaipeda.

There is information about the Chinese banks' freezing the next tranches of loans in the amount of USD 580 million to finance the Slavkali project for the construction of a new potash plant due to its owner Mikhail Gutseriev being included in the sanctions lists. Lithuania's ban on the transit of potash fertilizers through its ports, which may start operating as early as December, may also create significant problems for the Belarusian economy. The Belarusian authorities have begun to actively work out alternative routes for transporting potassium through Murmansk and the Leningrad region, however, the possibility of complete replacement of the Baltic ports by these routes is questionable.

In general, according to the calculations of the BERO research centre, the current sanctions affect from 10 to 13.5% of all Belarusian exports, and the potential losses from them could amount to about 6% of GDP within 2-3 quarters after their activation and expand to 10% in the event of a significant BYN fall down. At the same time, the EU authorities are going to further increase the sanctions pressure on the Belarusian economy - European officials announce the start of work on the fifth package of sanctions.

In such a situation, the likelihood of a shock deterioration in external conditions for the Belarusian economy increases. A similar scenario is possible if the end of the recovery growth cycle of the world economy causes a significant drop in demand for Belarusian investment goods and is accompanied with the beginning of the full effect of most of the sanctions. The situation may be further aggravated by the politically motivated desire of the authorities to maintain the achieved level of production, despite the reduction in external demand.

The risks of financial instability

Favourable external conditions are also an important factor for the country's financial sector, to a large extent levelling the problems characteristic of it over the past year and a half. Thus, a favourable situation is observed in the foreign exchange market. In August, for the second month in a row, the population acted as a net seller of foreign currency - this time for a total of USD 95 million. The total excess supply on the market (in August by almost USD 230 million) allowed the National Bank to replenish the country's gold reserves by buying foreign currency on the exchange.

In August, the IMF decided to support the members of the organization and carried out an anti-crisis distribution of SDR, as a result of which Belarus received USD 923 million in equivalent. Thanks to this tranche, as well as to the purchase of foreign currency on the exchange, the gold and foreign exchange reserves of the country grew to USD 8.5 billion in August. At the same time, in August, the government made payments on external debt in the amount of about USD 340 million.

With the growth of gold and foreign exchange reserves, the size of the external public debt continues to decline - from the beginning of the year it reduced by USD 206 million to USD 18.4 billion. However, this reduction is largely due to the increase in domestic debt: the net placement of domestic government foreign currency bonds since the beginning of the year has exceeded USD 760 million.

At the end of July, after the payment of quarterly taxes, the execution of the consolidated budget returned to the surplus. The size of its surplus in January-July amounted to BYN 498 million or 0.5% of GDP. At the same time, the government maintains a plan to increase the budget deficit to BYN 6 billion by the end of the year.

At the same time, the peculiarity of the current Belarusian situation is that the growth of output and income does not lead to a noticeable improvement in the expectations of the population. In the banking system, there is a trend of deposits outflow: by the end of July, foreign currency deposits of individuals decreased by USD 97 million (or by 2.5%), while the growth in BYN deposits was only 1%, which is less than the current level of capitalization. As a result, after the National Bank lifted restrictions, banks began to actively raise deposit rates in the struggle for depositors. So, by the beginning of September, the maximum rates of Belarusbank (the largest bank in the country) on USD deposits exceeded 5%, and on BYN deposits practically reached 20% per annum.

The problem with foreign exchange liquidity may be exacerbated by sanctions against the financial sector. So, in August, the Fitch agency decided to revoke the ratings of Belarusbank and Belinvestbank, justifying its decision by the sanctions imposed against these banks. The loss of the rating will significantly complicate external borrowing for banks, and may also lead to an outflow of non-residents' funds.

The risks to economic independence

The more than two-year saga with the development of roadmaps for deepening integration within the framework of the so-called "union state of Russia and Belarus" seems to be coming to an end. The relevant departments of the countries completed the development of 28 programs for deepening integration, and at a regular meeting on September 9, Vladimir Putin and Aliaksandr Lukashenka at the political level agreed on their readiness. In accordance with the published summaries of the programs, they contain a list of directions for the harmonization and unification of national legislation and the integration of various information systems of the two countries. The most important areas of integration are the creation of a common payment space, unification of monetary policy, general currency regulation, a unified system for administering indirect taxes, unification of financial and transport markets, and the creation of unified energy markets. At the same time, the formation of a single gas market is postponed until the end of 2023, and until that time the gas price for Belarus is fixed at the current level (USD 128.5 per thousand cubic meters). The parties also do not declare anything about Belarus receiving compensation for losses from the tax manoeuvre in the oil sector of Russia. In general, in their current form, the programs do not look like a significant threat to the country's economic sovereignty. Thus, they do not contain plans for the introduction of a single currency, the formation of a common budget and the creation of supranational bodies.

Along with the announcements about the completion of work on integration programs, there is information about the negotiations of the Belarusian government with the Eurasian Fund for Stabilization and Development on obtaining a new loan. According to some reports, the Belarusian authorities asked the Fund, the main founder of which is Russia, for financial support in the amount of USD 3 billion and began preliminary consultations on the programmatic matrix of measures. Putin also announced his readiness to provide another credit support to Belarus at the meeting on September 9. According to him, the amount of loans that will be provided for the period until the end of 2022 may amount to about USD 630-640 million. At the same time, it is not clear whether this means new intergovernmental payments or EFSD funds.

Conclusions

Favourable external conditions and sanctions from Western countries remain the key factors in the development of the economy. Significant risks can be created by the simultaneous end of the accelerated recovery growth of the global economy and the strengthening of the actual impact of the sanctions. At the same time, an important factor in maintaining financial stability is credit support from Russia and its affiliated structures. However, this support may be associated with the need to agree and implement programs for deepening integration within the so-called “union state”.

