

# Belarusian Economy in April: GDP Growth, Privatisation and Monetary Policy

This April economic growth in Belarus was nearly at the level of last year's, which still remains significantly below the official forecast.

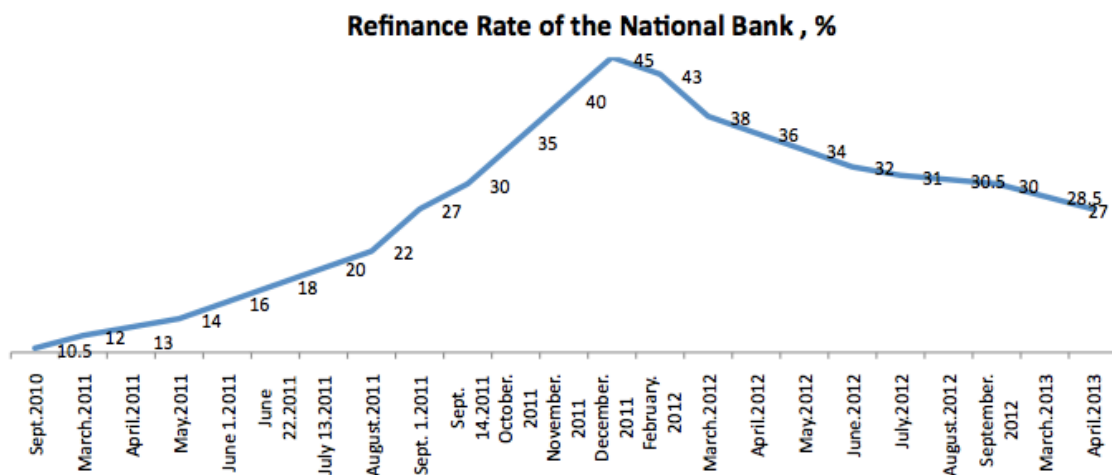
The financial sector showed certain stability but the situation with attracting foreign capital and the nation's privatisation prospects remain uncertain.

The growth of consumer and commercial deposits in Belarusian rubles provided the banking system with the necessary resources. At the same time a sufficient amount of liquidity in the banking system contributed to stability on the currency market.

The gradual reduction of the refinancing rate was preserved. The National Bank carried out a second round of cuts and decreased the rate to 27%.

It also allowed for reducing interest rates on 1-day loans in Belarusian rubles on the interbank market. The rates fell from 35% in January to 18.5% in March and continued to decline in April.

The supply of foreign currency on the Belarusian Currency and Stock Exchange increased due to a positive trade balance. The National Bank had to buy some foreign currency in order to prevent an excessive appreciation of the Belarusian ruble. This, in turn, had a positive effect on the dynamics of its international reserves, which grew by USD 136.2m and came to a total of USD 8,148.7m.



## GDP Growth

The economy has kept growing at a gradual and steady pace. In the first quarter of 2013, the GDP grew by 103.5%, which matches last year's growth. Belarusian authorities forecasted GDP growth in 2013 at the level of 8.5%. However, this prognosis raises doubts as the estimates of international experts remain more pessimistic when compared to the figures proposed by Minsk officials.

According to the International Monetary Fund, the Belarusian economy will grow by just 2.1% in 2013. Predictions of Russia's Ministry of Economic Development are more optimistic – 3.7%. The World Bank estimations predicts 4%.

Net taxes on goods, retail and wholesale trade were the main contributors to GDP growth in the first quarter of 2013. Industrial production had a negative effect on GDP growth. Even though the volume of industrial production was reduced, inventories of finished goods formed almost 80% of total monthly production by the end of March, while this number was only 46.4% a year ago. The Belarusian government, however, plans to provide the required growth rate primarily due to its emphasis on achieving economic modernization.

## **Privatisation and Foreign Direct Investment**

Attracting foreign investments remains a major concern for the government. The denationalisation of the Kommunarka and Spartak confectionery factories, which occurred back in October, has had negative consequences for the Belarusian economy. The main issue facing the leaders of the confectionery industry is finding proper channels to unload of their stocks. Denationalisation resulted in their losing many of their former distribution channels which remain under control of Marat Novikov, the former owner of the factories.

At the same time the authorities have undertaken efforts to make the privatisation process more smooth and effective. At the end of March the Council of Ministers adopted a decree to introduce changes into the law on the privatisation of state assets. It intends on implementing specific measures in generating the private sector's support such as the introduction of a ban on revising the terms associated with the results of the privatisation process.

The reasons for making such a decision are rather straightforward. In 2013 Belarus has to sell at least USD 2.5 bn of its state assets in order to fulfil its obligations of its EvrAzES loan. However, events connected with the re-nationalisation of the leading producers in the confectionery industry, together with a gratuitous transfer of 21% of shares of the Luch watch factory to the state, undoubtedly raise serious concerns among investors with regards to the risks associated with property rights protection. These planned changes in the law on privatisation are suppose to signal an improvement of the situation and increase the attractiveness of making investments in the economy.

Nonetheless, the forthcoming passage of the law "On Amendments to the Law on Privatisation of State Property and Transformation of State Enterprises into Joint Stock Companies" will bring innovations in management and the

regulation of joint stock companies created through privatisation. This will have a negative impact and decrease the interest of potential investors in those assets, where at least some part still belongs to the state.

At the same time, the introduction of a ban on the revision of privatisation deals does not protect owners from an abrupt transfer of control to the state, something that can be easily accomplished through the issuance of additional.

While an the implementation of a ban is the right step towards creating conditions that will improve the investment climate in Belarus, it will not likely have a serious effect on stimulating the privatisation process in the near future.

Overall, despite a rather robust and stable picture that characterises the situation in economy so far, Belarus continues to struggle to meet the targets set by the authorities.

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