On 1 June 2017, Belarusian President Alexander Lukashenka announced that the oil refining industry was experiencing substantial problems.

Meanwhile, the economy is still showing signs of recovery, growing three months in a row. This will encourage the government to make even better economic projections for next year.

However, according to Belstat, Belarus's official statistical body, the real price of this economic miracle continues to come at the cost of simple people – every month, half of all Belarusians bring home less than half the average monthly wage.

The oil sector: sinking giants

On 1 June 2017, Alexander Lukashenka declared that refining had turned from the bulwark of the economy into a loss-making industry (see Figure 1). He admitted that for the most part, inclement external conditions (falling oil prices) were to blame, but he also noted the failure of modernisation.

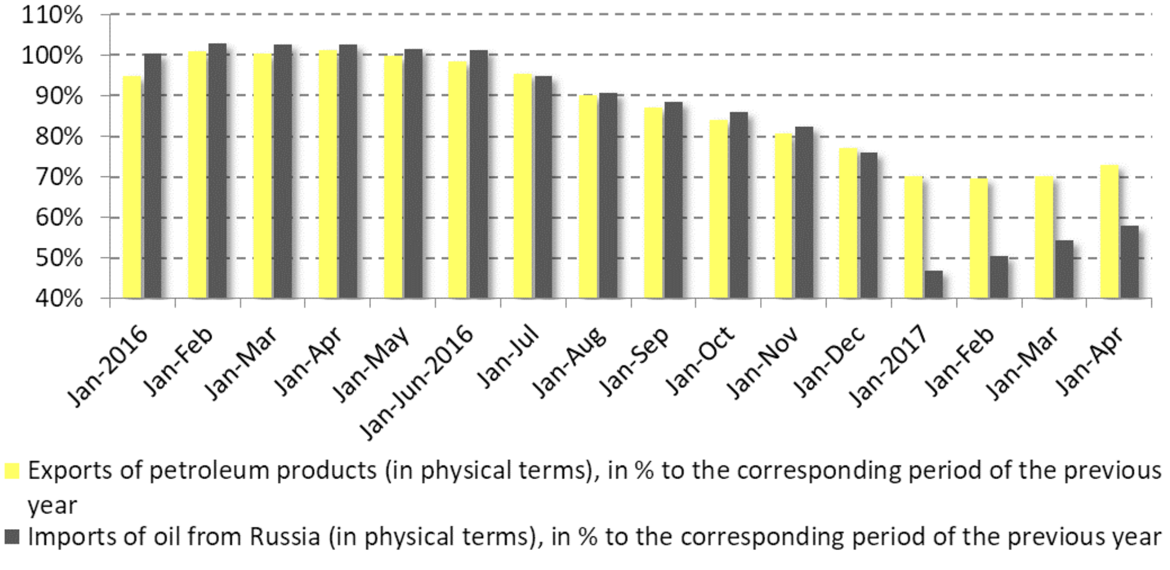

Figure 1. Oil industry

According to the President, the value added by oil refining to Belarus's GDP dropped last year to only half a percent. As a result, the contribution of two Belarusian refineries, Mozyr and Novopolotsk, is now equal to companies such as Beltelecom, a state-owned telecommunication company.

However, any radical change in the management of the oil industry still appears unlikely. Moreover, the authorities are once again planning to invest more money – as much as $1.2bn – to complete the modernisation of the two refinery companies by the end of 2019.

According to a recent statement by Uladzimir Siamashka, Vice Prime Minister of Belarus, this modernisation should allow the the depth of oil refining to increase by up to 90 per cent, turning these companies into 'aerobatics plants' – enterprises able to provide oil processing as deep as the world's best refinery companies and featuring a wider range of petroleum products.

However, these promises remain dubious for several reasons. First of all, Belarus is experiencing a shortage of money for large investment projects. According to the First Deputy Minister of Finance Maxim Ermolovich, approximately 10 per cent of the budget goes to repayment of the state debt (both external and internal).

Second, the country lacks high-level management skills at state-owned enterprises. Finally, Lukashenka has admitted that preparation for the project is not yet complete and points to inappropriate distribution of resources.

In light of this, on 27 June, Alexander Lukashenka announced radical measures for rapid development of the IT sector, which remains the only industry which still possesses competitive advantages.

Economic growth: waiting for better results

On 26 June 2017, First Deputy Prime Minister Vasily Matyushevsky declared that last month's results show that the economy is gradually emerging from recession – economic growth is increasing month to month.

The GDP did indeed increase by 0.9 per cent during the first half of the year in comparison with the corresponding period of the previous year (see Figure 2). Inflation has stayed at the lowest level in Belarusian economic history – for the five months of the year it reached only 2.7 per cent, less than half of what was predicted.

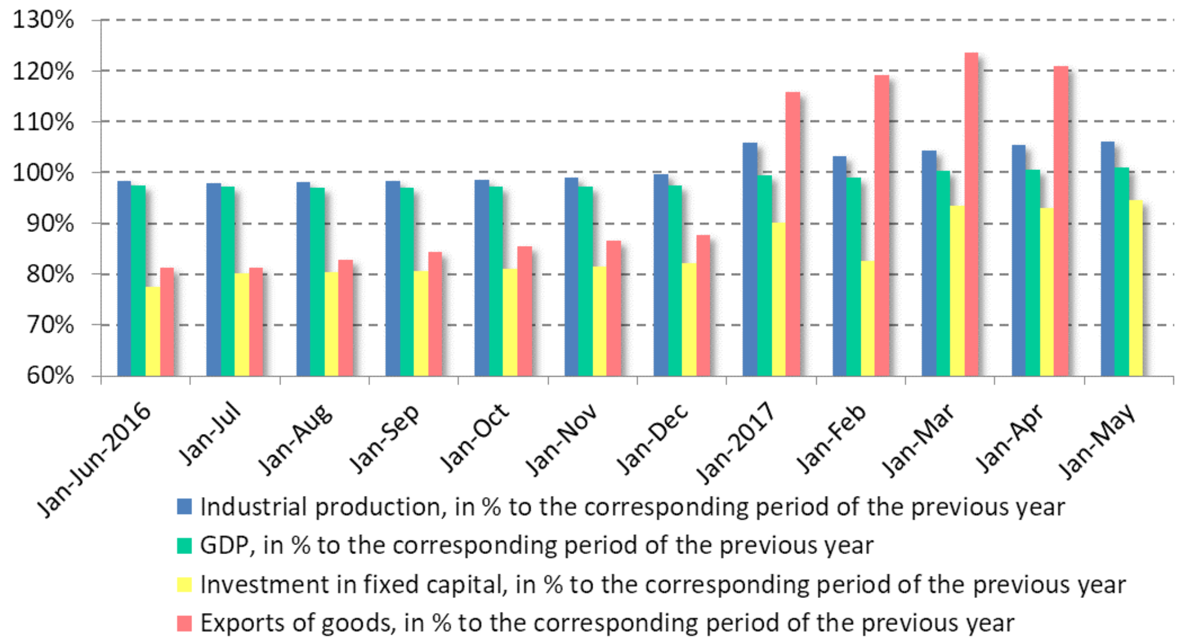

Figure 2. Economic performance

Export in January-April grew by 19.5 per cent. However, according to Vasily Matyushevsky, this was mainly thanks to technological products (motor vehicles, tractors, and machinery), rather than sales of commodities (petroleum products and potash fertilisers).

However, according to economic expert Anton Boltochko, the current positive economic figures reflect only conjunctural growth caused by the low base of the economy, the result of the past two years of recession. With a projected GDP growth of 1.1 per cent in the next year, this looks more like a stagnation scenario, not so much a development plan.

Moreover, even Vasily Matyushevsky reluctantly agrees with this statement. He emphasises the need for structural reforms accompanied by improvements in the institutional environment in order to fulfil the more dynamic target economic scenario.

Wages: directive planning may rise again

Meanwhile, it seems that while reforms remain only in the planning stage, directive tools of governance of the economy are once again gaining momentum. This is especially true for the growth of real wages.

According to the Belstat, the average salary in Belarus reached BYN795 ($414) in May 2017. Taking into account growth of consumer prices, the corresponding real wages have increased by 4.1 per cent in comparison with May 2016. However, it is necessary to take into account that the average wage fails to reflect the differences in regions and industries.

In comparison with economic centres (such as Minsk and regional capitals) this problem is exacerbated by the low level of economic activity. Differences between industries add additional pain.

On one side, light industry and agriculture are still largely loss-making, one the other side, telecommunications, logistics, banking, and information technology remain profitable.

Finally, in the public sector the average wage hovers at approximately 77 per cent of the country average. As a result, according to data revealed by Belstat on 29 June 2017, every second Belarusian has less than BYN370 ($192).

Given such low growth rates for wages and the significant differentiation across regions and sectors, it would take a miracle to fulfil the authorities' goal of achieving an average wage of BYN1,000 or $520 (growth by 26 per cent) by the end of this year using standard market methods.

Thus, taking all this together, the authorities may attempt to use directive (administrative) methods in order to ensure the growth of industrial production and wages. However, manual control over Belarusian companies may result in a chronically dire economic scenario: increased inflation and an economy threatened by financial instability.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC) ian-economy/