

What to Expect in 2014? – Digest of Belarus Economy

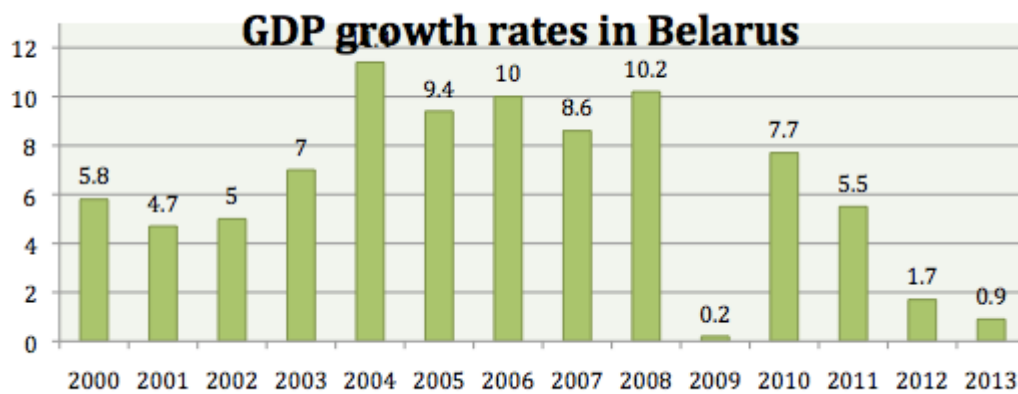
The year 2013 will probably go into the economic history of Belarus as a year when even the government officials acknowledged that the economy was stagnating, and there were no prospects for any quick economic growth in the years to come.

The official economic forecast for 2014 contains a modest GDP growth number of 3.3% (compared with 8.5% forecast for 2013), the Belarusian ruble will continue to be devalued (the only question now is how quickly) and despite the promises of Russian loans, Belarus faces the possibility of a 2011-like currency crisis.

The economic failures of 2013

2013 will go into the history books as a total failure for the economic authorities of Belarus. The long-run growth potential has weakened, productivity lags behind the rest of the world, its main trading partner is also stagnating and the currency reserves are depleting.

Add the potash market scandal, which resulted in low prices and low production to one of the nation's most important governmental enterprises, Belaruskali, and you get a year with a disastrous GDP growth rate of 0.9 per cent. This number is disappointing even those in countries with developed economies.



For a developing economy like Belarus a growth rate of 0.9 per cent means a full-blown recession has set in. This is the second lowest growth rate in the past decade – only once has this number been lower only in 2009, when the government had the excuse of the Great Recession.

Moreover, manufacturing and agriculture in 2013 were declining, losing 4.8 and 4.0 per cent respectively in comparison to the previous year. Only retail trade, which continued to benefit from wage increases, promoted growth.

The economy also failed to perform as expected by the government on other accounts. Inflation exceeded the forecasted value and reached 18.3 per cent over 2013. Devaluation also escalated faster than expected. Because of the stagnation in Russia and the potash conflict the balance of trade in goods also quickly deteriorated to -\$4.72bn over January-November 2013.

The only economic indicator, which met its projected target was the growth in real wages. Real wages grew 17 per cent in January-November, while labour productivity grew only 2.2 per cent in 2013. The pressure on wages comes from migration: Belarusians now can freely migrate to Russia, where wages significantly exceed Belarusian levels.

GDP outlook for 2014

Little hope remains that retail trade, the main growth driver

in 2013, will keep up with the fantastic growth rate of 18.2 per cent in 2014. However, manufacturing will pick up pace, mostly due to gradual devaluation, which makes Belarusian exports more competitive. Other positive factors might be the resolution of the potash conflict and the increase of the oil supplies from Russia.

The effect of last year's modernization programme remains to be seen. So far the press is keeping quiet about success stories, but there are multiple anecdotes about failures (for example, about a linen plant buying equipment which appears too big for its buildings, or several scandals within the wood industry). The government officials understand the issues and talk about how the key to modernization lies not in more investment, but in better management. However, nobody knows how to motivate the management of state enterprises.

The growth of real wages will slow down in 2014. High wages undermine the competitiveness of Belarusian exports. Most of the state-owned enterprises have limited capacities to increase wages any more as they are already in the red. Already in November 2013 real wages declined. In 2014 one can expect that wages will grow slower than the economy.

Given all these facts, even the government projects the modest 3.3 per cent growth for 2014 (compared to 8.5 per cent forecast for 2013), while independent experts are more conservative and give forecasts of 1.5-2.5 per cent.

Current account and devaluation expectations in 2014

Devaluation will remain the burning question throughout 2014. Over 2013 the Belarusian ruble was devalued from BYR 8.570 to BYR 9.510 per \$1, and there is no reason for it to stop at the current level (at the time of writing the rate is already up to 9.590).

Current account balance will stay negative in 2014, even if the exports are expected to pick up slightly. The Russian \$2bn

loan (part of which is, in fact, just a replacement for the last tranche from the Anti-Crisis Fund of Eurasian Union) will help the monetary authorities keep the exchange rate from plummeting uncontrollably. But to keep the exchange rate stable the government requires much more. On the other hand, the real economy desperately needs devaluation to restore its external competitiveness.

Political pressure remains an important factor against devaluation – Lukashenka promised a certain fixed wage in USD during his election campaign (although \$1,000 average wage in 2015 already seems unattainable). This factor will motivate the National Bank to use non-conventional measures like liquidity constraints and restrictions on foreign currency-denominated loans.

Given the desperate need for inflows of foreign currency, privatisation seems imminent. The list of the major candidates for privatisation includes oil refineries, auto truck producer MAZ, cell company MTS and even some producers of military hardware.

The projected buyers are Russian corporations. Combined with Russian loans, and, maybe, some Chinese investments, the government will be able to partially cover the nation's trade deficits. But in 2014 Belarus also has to repay a number of loans. Continuing gradual devaluation of the currency seems inevitable. The expert's consensus is that BYR10.500-11.000 per \$1 by the end of 2014. However, there remains the possibility of another currency crisis with a devaluation-inflation spiral similar to that of 2011.

2014 is going to be another difficult year for the Belarusian economy. The authorities remain on the horns of the dilemma, torn between the need for macroeconomic stability (in particular, stability on the currency market) and the desire to stimulate the economy. Let us hope that difficulties will open way to the long-needed structural reforms.

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

Most Popular Articles on Belarus Digest in 2013

In 2013 Belarus Digest published over 250 articles. We selected top ten most viewed articles published this year.

1. [Getting A Belarusian Visa: Easier But More Expensive](#)

Since 22 August 2013 all foreigners can get Belarusian visas through the Minsk National Airport just after their arrival. However, these and other measures to relax the visa regime on the eve of the 2014 Ice Hockey World Cup still remain incomplete. They leave a number of obstacles on the path to simplifying travel to Belarus and from Belarus which includes low number of no visa treaties with other countries and high visa costs.

Moreover, the government does not want to address the painful issue of the simplification of the visa regime with the EU for purely political reasons. Visa liberalisation will lead to potentially unpleasant consequences for Belarusian authorities such as brain drain and the impossibility to prohibit undesirable Western politicians and activists from entering Belarus.□

2. [Snow Storm Xavier Paralyzes Belarus](#)

Large parts of Belarus and the Belarusian capital Minsk have

spent this weekend under exceptional circumstances. The cyclone Javier has paralysed large parts of the country for almost two days. While similar weather conditions in the USA would make it to the top news in Europe, there has been no mentioning of the storm in Belarus in Western media.

It started as simple snow fall on Friday morning, but approximately 20 cm of snow fell in the following 24 hours. The wind was 22 metres per second according to the Belarusian hydro-meteorological centre. Sight was limited to 100 metres in the Minsk region on Friday afternoon because of the heavy snow falls. Although the country is used to severe winters and well equipped to deal with large amount of snow, public life has come to a halt at this weekend.□

3. Vilnius: The New Mecca For Belarusian Shoppers And Activists

On weekends, Vilnius looks like a Belarusian city. Cars with Belarusian registration plates, crowds of Belarusians carrying shopping bags, even bus schedules to Belarus from big shopping centres. In 2012, according to the Lithuanian State Department of Tourism, 400,000 Belarusian guests visited Lithuania. In politics, Lithuania maintains a critical position against Lukashenka's regime. A significant number of offices of foreign foundations and organisations which work with Belarusian civil society are located in Vilnius.

Lithuania, somewhat paradoxically, remains one of the few countries which profits from Belarus' isolation. Thanks to the protectionist practises of the Belarusian regime, it has become much cheaper for Belarusians to pay for visas and transportation expenses, and to buy many goods in Lithuania, than at home.□

4. Belarus And Russia Prepare For The West – 2013 Military Drill

The planned Belarusian-Russian joint military drill, “West

2013", has stirred up NATO member countries. The armed forces of both countries will hold the drill in the autumn, while some Polish and Lithuanian politicians have already discussed the threat of war.

Alexander Lukashenka said on 21 February that "Belarus and Russia are not going to threaten anyone". This time he is telling the truth. A war in the centre of Europe remains beyond contemporary perception of reality, while the mentioned military drills seem to be an attempt to satisfy Russia's imperial complex. The Belarusian regime uses intensive military cooperation as a pretext for getting more financial aid from the Kremlin.

5. EHU: How Belarusian Is The Belarusian University In Exile? □

The European Humanities University, also known as Belarus's university in exile, is struggling to find its identity. It is torn apart between being the Belarusian university in exile and a "normal" European university based in Lithuania. Some say, it has lost its Belarusian character and gave up on its original mission. Others say that moving away from the Belarusian language and Belarus-focused curriculum is a sign of a truly international university, which the EHU should be.

If the EHU is to remain loyal to its original mission as a Belarusian university, it should seriously think about offering what is not available in Belarus or at Western universities. In addition to greater academic freedom (which some say exists in Belarus too), it should keep Belarus-focused courses and language at the forefront of its activities.□

6. Belarus Wants New Russian Fighter Jets But Without Russian Pilots

Last week, Russian defence minister Sergei Shoigu discussed

with Alexander Lukashenka establishment of a Russian air force base in Belarus. A few days later, Lukashenka dismissed the claims that Russia will have a military base in Belarus. The news came as media of neighbouring countries continue to discuss the significance of Belarus-Russian military drill West-2013 (Zapad-2013) scheduled for autumn.

Belarusian and Russian officials insist that the West-2013 drill does not threaten anyone, and remind that last year NATO conducted a dozen of drills of different scales in neighbouring countries. Despite various speculations in Belarusian and Western media, little evidence exists to support that is Belarus threatening anyone military, together with Russia or on its own. □

7. Higher Education In Belarus: Burdened By Soviet Traditions

Belarusian Minister for Education Siarhei Maskevich on 28 January 2013 expressed his hope that students will convert the Belarusian science "into the main factor of socio-economic and mental development of the country". But does the government really foster the progress of students' education in Belarus?

The lack of academic freedoms, mandatory and old-fashioned study plans have become the main defects of the Belarusian higher education. While government makes certain steps to approach these issues, the progress is rather slow.

8. Four Western Myths About Belarusian Higher Education

The Minister of Education Syarhei Maskevich announced on 3 May 2013 that "Belarusian universities enjoy a high level of autonomy". Considering the fact that Belarus remains the only European state outside of Bologna process precisely because of its lack of academic freedoms, top Belarusian officials may not be completely honest.

However, many myths about Belarusian higher education exist in

foreigners' minds as well. For example, the government neither owns all the universities, nor educates people free of charge. Political expulsions happen only very rarely and usually students can travel abroad without any problems.

9. Minsk Police Cracks Down On Prostitution In Elite Clubs

On 20 August, a special police unit arrested two employees of the famous Shangri La Casino. Investigators suspect them of organising a prostitution services to the casinos' VIP clients. A similar case happened in 2012, when employees of the elite entertainment centre Dankoff Club were arrested on the same accusations and soon the owner himself also appeared in jail.

Belarusian authorities officially consider prostitution a blatantly illegal activity. Yet despite the high capacity of the state, they are still unable to do away with the problem. The reason may be quite simple: such networks could exist under the "roof" of high officials who have direct or indirect interest in this business.□

10. Do Belarusians Want To Join The EU?

On 2 March, the Belarusian Institute for Strategic Studies presented a report on geopolitical preferences of Belarusians. The media paid little attention to the document presented by an influential Belarusian think-tank, although the conclusions of this report could be important for Belarus.

Despite the crisis in Europe, the regime's anti-European propaganda and the EU's weak informational policy inside Belarus, the number of Belarusian euro-enthusiasts continues to grow, slowly, but still. At present moment, 17 % Belarusians consistently support the idea of European integration. Moreover, if we held a referendum on Belarus' joining the EU tomorrow, 38,2% Belarusians would have said "yes".

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