Waiting for a Miracle: Digest of Belarus Economy

On 28 March 2016 the Council of the Eurasian Fund for Stabilisation and Development (EFSD) approved the provision of a new loan to Belarus.

In the meantime, the export and real estate market established new numbers of their record fall, questioning the limits of slowdown in Belarus.

In such a situation the government tries to secure state financial support – President Alexander Lukashenka has signed a new decree that grants funding only for profitable strategic investment projects.

Exports: Reaching the Bottom

According to new data announced on 21 March 2016 by Belstat, Belarus’ exports in January has decreased by more than 20 per cent (in dollar terms) in comparison with the same month last year to just $1.6bn – the lowest level for one month since 2009 (see figure 1).

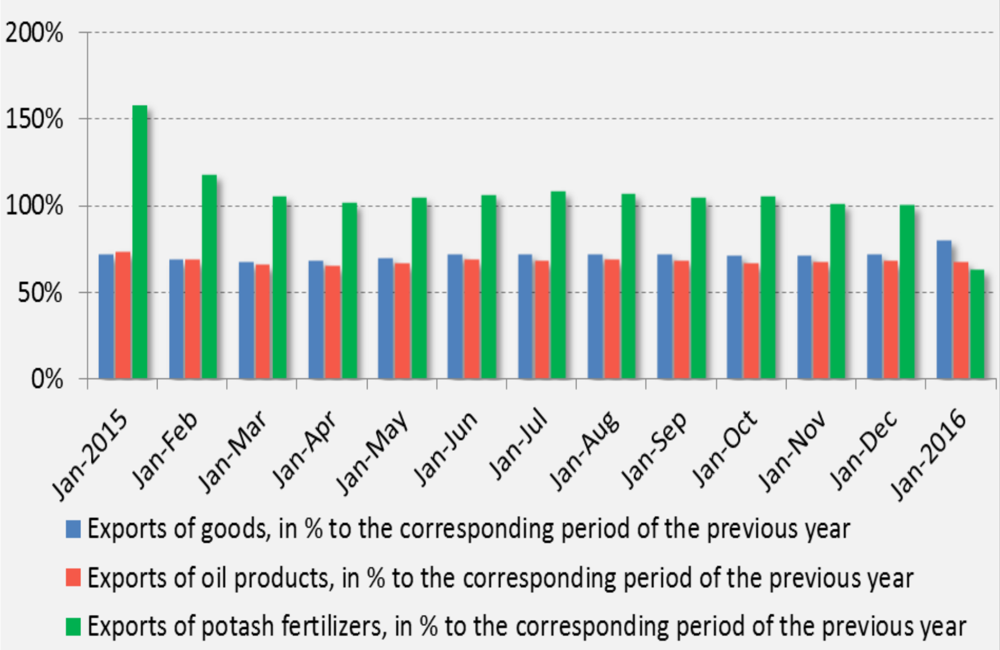

Figure 1. Export indices

Moreover, exports declined for 16 straight months in a row. This happened mainly for three reasons. First of all, approximately half of Belarus' exports go to Russia, where growth has been under pressure since 2014.

Second, Belarus' main exports are positioned to markets outside the Eurasian Economic Union; this includes potash fertilizers and oil products. In January, the delivery of these items to foreign markets fell by more than a third in dollar value compared to the same period of the previous year.

However, according to the General Director of Belarusian Potash Company Elena Kudryavets, the company (Belaruskali) increases its share in the world exports and focuses on the real needs of the market while responding to changes in demand.

Next reason concerns refinery. Belarus exports about 14-15mln tones of oil products produced mainly from Russian crude oil and purchased at a reduced price. Therefore, the drop of world oil prices adversely affected the interests of Belarus – the lower world price, the lower the margin between the world and price for Russian oil.

Additionally, export prices for oil products has fallen more in comparison with world oil prices. As a result, foreign exchange earnings of Belarus from the sale of oil products in 2015 fell by 28 per cent compared with 2014.

Real Estate: Repeating the Bubble

Deep recession and big financial rescues for inefficient Belarus' state-owned enterprises led to the downfall of households' incomes (nearly by half). However, right now the next wave of economic problems has reached the shores of Belarus' main private companies.

Starting in 2001, the rising oil prices marked the beginning of the "golden age" for real estate investments in Belarus. Sensing the smell of "easy money" local major entrepreneurs have started to turn into real estate bosses. As a result, the average house prices in Belarus almost tripled by the end of 2013 (see figure 2).

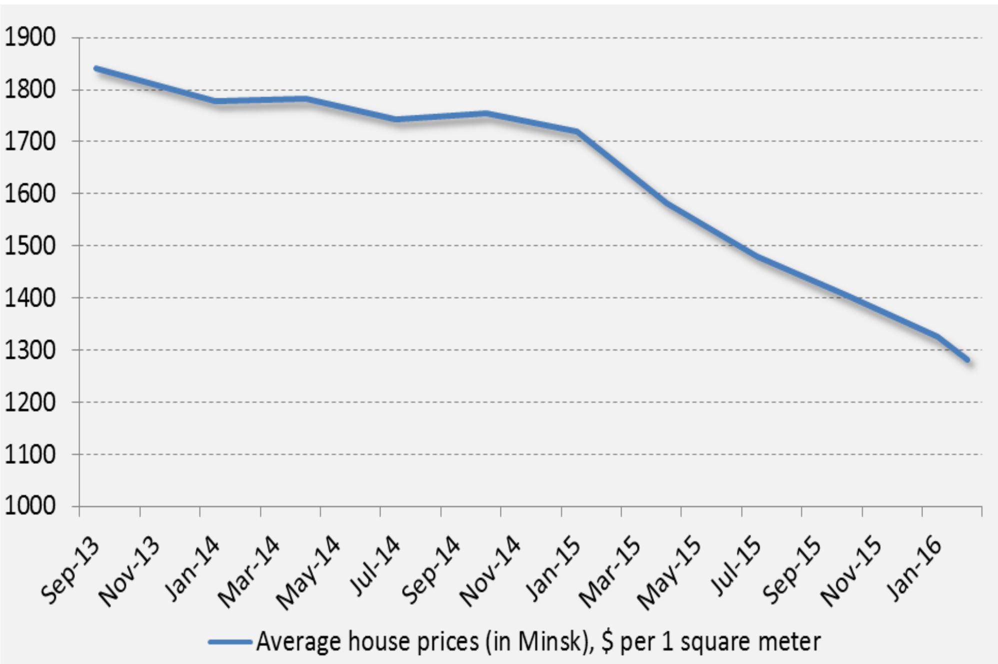

Figure 2. House prices

However, since 2014 house prices dropped by more than 28 per cent – the nightmare for Belarus' real estate market.

The bubble occurred generally due to three motives: the overconfidence in stability of oil prices and the Russian market; steady growth of incomes of Belarusians subsidised by loose monetary policy of the National Bank of Belarus (NBB); and lack of other possibilities for profitable investment.

Moreover, Belarusian companies helped to ignite the fire of problems by themselves leading to the rising debts of their operations including real estate transactions.

Additionally, this situation plays both as a consequence of the economic crisis and a big reason for its continuance causing subsequent problems in the banking sector. According to the NBB, in February 2016 the amount of troubled assets of Belarus' banks increased once again and reached 10 per cent share of their whole assets.

State Governance: Swapping the Rules

Step by step the state machine begins to change its main driving economic mechanisms. On 21 March 2016, a new Presidential decree, No.106, changed the system of formation of state programmes and the provision of state support to economic entities.

The main adjustments suppose the transition from an individual towards a programme approach for the granting of state financial support. It cancels the possibility of direct requests of the enterprise for additional financial resources in case of permanent economic troubles.

For now, the government provides financial resources only according to the strategic investment priorities of the economy and the possibility of the fulfillment of strict requirements for achieving efficiency targets.

As a result of such a daring decision, the EFSD, on 28 March 2016, approved the provision of $2bn loan to Belarus in order to support the economic policy measures and structural reforms proposed by the government and the National Bank of Belarus.

According to EFSD's press centre, Belarusian authorities agreed to insure the control over the monetary policy, through implementation of flexible exchange rate policies and the achievement of a balanced budget. Moreover, structural reforms assume substantial increase in the share of compensated utilities by the population – up to 70 per cent by the end of 2017.

All these should add up to reduction in cross-subsidies and direct lending, playing an important role in the increase of competitiveness in the economy.

However, according to former NBB's Chairman Stanislau Bahdankevich, the economy, right now, is experiencing substantial difficulties with repayment of previously obtained loans ($3.3bn only in 2016). The inability to accomplish such transactions means default for the economy; Bahdankevich believes that the new EFSD's loan is needed only to avoid such a negative scenario.

Belarus' economy still suffers from recession, stacked in debts enterprises, free falling exports and a declining real estate market. However, it seems that state authorities finally got some insight into the economic troubles and have started the process of finding a way out.

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This article is a part of a joint project between Belarus

Digest and Belarusian Economic Research and Outreach Center (BEROC)