

The end of a long-lasting recession? – Digest of the Belarusian economy

On 17 May 2017, Belstat, Belarus's official statistical body, announced that Belarus's economy is growing for the second straight month.

Thus, on 24 May, Deputy Prime Minister Vladimir Semashka declared new investment plans for the industrial sector assuming further economic recovery.

Nevertheless, the economic environment remains complex and the debt burden of enterprises is high, threatening the stability of the banking system.

Economic growth: good prospects for the future

On 17 May, Belstat announced that in January-April, GDP increased by 0.5 per cent in comparison with the corresponding period of the previous year, thus extending March's positive dynamics (see Figure 1).

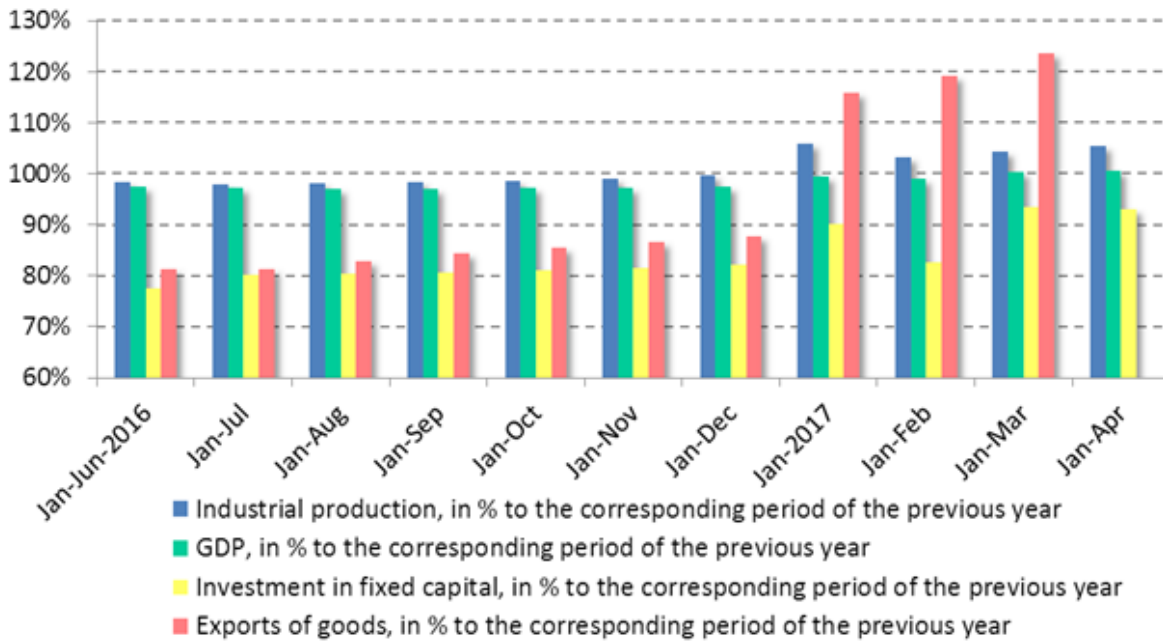


Figure 1. Economic performance

The main contributor to the recent economic growth remains export. Figures for the first quarter of the year indicate that export of goods has increased by 20 per cent, thanks to the steady recovery of the Russian economy and increase in consumer demand for Belarusian food products.

Another key factor is that the export of oil refinery products has risen from the ashes after the upward correction of world oil prices and [a long-awaited deal with Russian authorities on oil import](#). This will mostly add up in the second half of the year.

According to economist Vyacheslav Yaroshevich, the Russia-Belarus oil deal will encourage the entire economy, thus resulting in 30 per cent year-on-year export growth and an additional 0.7 per cent GDP growth by the end of May.

Furthermore, in the second half of the year, industrial production will also start contributing to overall GDP growth. According to Vyacheslav Yaroshevich, the industry shows signs not only of growth in production volumes, but also improvements in the financial situation, including increase in revenues, efficiency of sales, and net profits.

The financial sector: disappearing savings

According to data from the National Bank of Belarus, as of 1 May 2017 the amount of foreign currency deposits in banks amounted to \$6.8bn – the lowest since December 2013. This trend of constant decline in foreign-currency savings has been observable since November 2015. As a result, after 18 months, savings declined by almost \$1bn.

Three factors explain this trend. First is the the constant decrease in the profitability of deposits for Belarusians both in foreign and national currency.

For many years, the deposit rates on bank savings nominated in Belarusian rubles exceeded two-digit numbers. Even during periods when the Belarusian ruble was stable (the 2000s – a period of generous oil subsidies), their yield came to more than 10 per cent per year. Only in the summer of 2006, due to declining inflation, did the average deposit rate fall to 9.7 per cent.

Over the next decade, it was always expressed in double figures due to the high inflation rate. It even exceeded 50 per cent per annum during the 2011 and 2014 financial crises. However, in 2015-2017, after the National Bank of Belarus committed to reduce inflation, these rates dropped to the historically low level of 8.4 per cent. They will supposedly continue to decrease (see Figure 2).

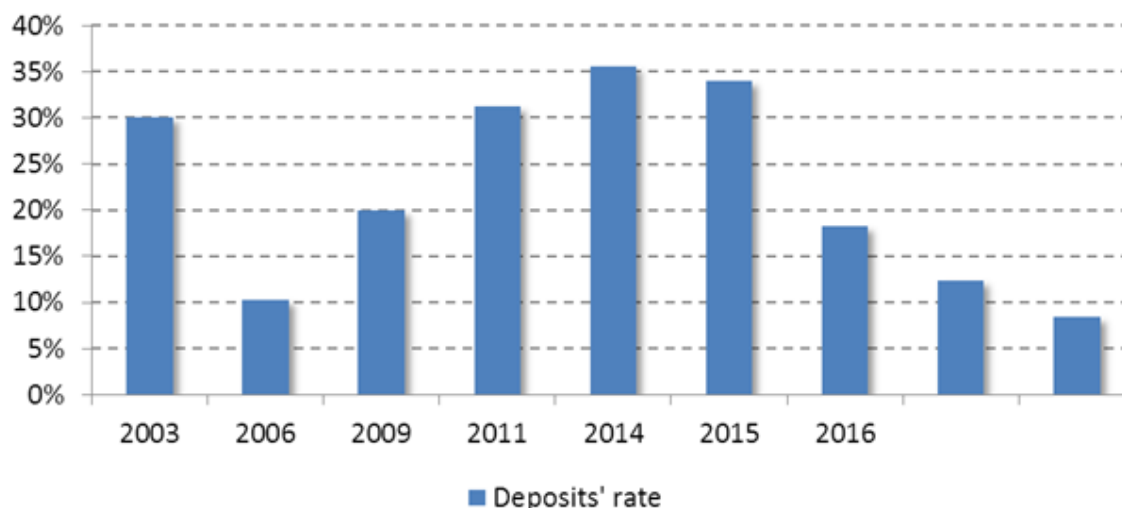


Figure 2. Dynamics of average interest rates on ruble deposits of the population in 2003-2017

The second factor is that there are very few profitable investment projects for banks to finance. Moreover, on 1 May, the share of bad assets (generated by current operations of enterprises) in Belarusian banks reached 14.2 per cent.

According to the Senior Director of the Moscow office of Fitch Ratings, Olga Ignatieva, the quality of assets in banks will continue to deteriorate, as the [economic environment is complex](#) and the debt burden of enterprises remains high. Thus, banks have less motivation to attract new deposits.

Finally, Belarusians, who are facing a decline in their real incomes, try to maintain the same level of consumption at the expense of their savings.

Manufacturing sector: modernization 2.0

On 24 May, Deputy Prime Minister Vladimir Semashka announced plans to invest \$500mln in the modernization of MAZ (the largest manufacturer of trucks in Belarus), \$800-850mln in the development of BMZ (a large metallurgical plant), and commit

additional financial resources to the modernization of refineries.

According to Vladimir Semashka, MAZ struggles with production volumes. Three years ago, the enterprise produced 24,000 trucks per year, whereas by the end of 2017 it was producing no more than than 11,000. The refineries performed better, but endured financial losses due to the drop in world oil prices and the decrease in oil suppliers from Russia in 2016.

However, in light of the absence of internal financial resources, the government has only two options if it wants to fulfil its plans for modernization and foreign direct investments.

According to the opinion of economists from the investment company UNITER, Belarus must increase the annual inflow of foreign direct investments (FDI) to \$3-4bn if it wants to increase economic development. However, data for 2013-2016 shows that the volume of FDI has stabilised at \$1.3-1.5bn per year without significant changes in recent years.

The second option is obtaining loans from international financial organisations. Once again, negotiations with the IMF remain incomplete (nobody knows for how long), and the Eurasian Development Bank still requires more profound reforms in the Belarusian state sector (including privatisation).

Thus, in May, Belarus's economy showed its first signs of recovery – the rise in export and industrial production point to positive prospects for the second half of the year. However, problems in the financial system, which have accumulated over the previous years, have not disappeared. This threatens the sustainability of the economy.

Aleh Mazol, Belarusian Economic Research and Outreach Center (BEROC)

This article is a part of a joint project between Belarus

Air Base Suspended, Seeking Support in Asia and Africa, Belarusian Studies – Ostrogorski Centre Digest

In December and January the Ostrogorski Centre analysts are busy analysing Minsk's complicated games in foreign policy and security affairs, finalising the most recent issue of the Journal of Belarusian Studies and organising a conference on Belarusian studies.

It appears that Belarus continues to cooperate with Ukraine on the issues where Belarus can gain financially and technologically, while keeping its distance from aggressive Russian foreign policy. Minsk has also managed to win the standoff over a Russian air base in Belarus.

Siarhei Bohdan argues that Minsk [consistently avoids](#) supporting Moscow in Ukraine and Syria. Belarus is continuing its active collaboration with Kyiv, aimed not only at business deals but also at acquiring the military technology which Russia has failed to provide it with. At the same time, Minsk [seems to be winning](#) the ongoing game over a Russian air base. A base will, it seems, not appear in Belarus in the near future, and on top of that Belarus will soon have Russian warplanes at its disposal.

Igar Gubarevich in his foreign policy overview [shows](#) that despite his renewed right to travel to Europe, Lukashenka's "social circle" has so far remained limited to authoritarian countries. While visiting and hosting Asian and African colleagues, the Belarusian leader had to postpone his most important foreign trip to Moscow because of disagreements over relations with Turkey and the Russian air base in Belarus.

Ryhor Astapenia analyses the performance of Belarusian industry in 2015. While many enterprises, such as [Kamvol](#), are poised on the verge of bankruptcy, others like potash exporter [Belaruskali](#) have saved the Belarusian economy, allowing inefficient industries to be subsidised.

Comments in the media

Siarhei Bohdan in an interview with the [Belarusian service of Radio Liberty](#) comments on the normalisation of Belarus-EU relations and their future in 2016. According to Bohdan, Belarus is trying to pursue a neutrality policy in a quiet manner and is seeking to boost trade cooperation with the EU. However, warming of relations will not change domestic politics significantly, as it will be dominated by Russian and Ukrainian factors.

[Aljazeera](#) quoted director of the Ostrogorski Centre □Yarik Kryvoi, who analysed the reasons why the Belarusian authorities refrain from large-scale privatisation and its associated social costs. The Aljazeera piece also cited Ostrogorski Centre associate analyst Alieś Aliachnovič's article on BelarusDigest dedicated to the role of Russia's subsidies in the Belarusian economy.

Ryhor Astapenia together with several well-known experts summed up the year 2015 on [Radio France Internationale](#). Among the most important events of the year Ryhor mentioned was Svetlana Alexievich's Nobel Prize, which put Belarus in the

focus of world media, and the October presidential election, which demonstrated people's disappointment with politics and the economic crisis in the first years of Lukashenka's new term in power.

According to the experts, the European Union should increase its presence in Belarus to be able to influence the situation from the inside

Siarhei Bohdan discussed with the [Belarusian Programme of Polish Radio](#) current trends in the development of the Belarusian Armed Forces. Despite the declared military union with Russia, the Belarusian army is seeking more autonomy and hampering major bilateral military projects.

Yarik Kryvoi and the Ostrogorski Centre's senior analyst Siarhei Bohdan commented on the role of sanctions in Belarus' relations with the west for [WorldECR](#), the Journal of Export Controls and Sanctions. According to the experts, the European Union should increase its presence in Belarus to be able to influence the situation from the inside. Patient critical engagement and economic modernisation can ultimately strengthen Belarusian statehood and improve the human rights and democracy situation.

Vadzim Smok took part in a discussion titled In What Ways Can We Talk about the Nation and Nationalism Today?, organised in Minsk as a part of the [Debates on Europe](#) programme and supported by the German Federal Foreign Office. The experts exchanged ideas on various models of nation-building in today's Belarus and the role of nationalism in this process.

The Belarusian government allows the existence of a sizeable shadow economy because its main revenue comes from outside the country

Siarhei Bohdan discussed with [Radio Racyja](#) the problem of the shadow economy in Belarus. The Belarusian government allows the existence of a sizeable shadow economy because its main revenue comes from outside the country, mainly from Russian

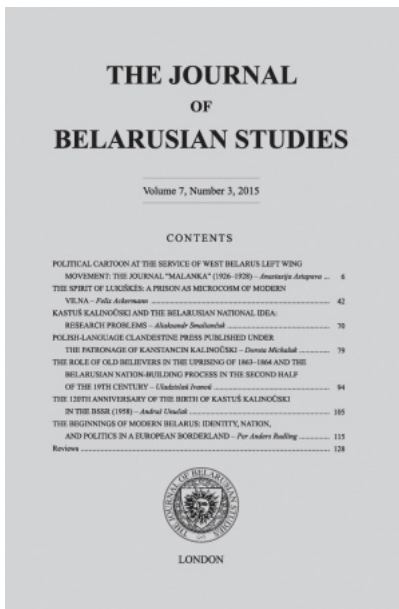
hydrocarbons. Many businesses operate via illegal schemes, and the authorities turn a blind eye to them in exchange for political loyalty.

Belarusian Studies in the 21st century conference

The Ostrogorski Centre and the UCL's School of Slavonic and East European Studies (SSEES) invite proposals from established academics and doctoral researchers for individual papers and panels to discuss various aspects of contemporary Belarusian studies.

The conference will take place on 23-24 March 2016 at the SSEES in London. The Annual Lecture on Belarusian Studies will follow the main conference panels. The conference will serve as a multidisciplinary forum of Belarusian studies in the West and offer a rare networking opportunity for researchers of Belarus. The conference call for papers is available [here](#) and the deadline is 15 February 2016.

The 2015 issue of the Journal of Belarusian Studies



The Ostrogorski Centre presents the [2015 issue](#) of the Journal of Belarusian Studies. The new issue of the journal focuses on the Belarusian-Polish-Lithuanian borderland and the period stretching from the uprising of 1863 to the inter-war period of the 20th century when the territory of today's Belarus was split between the Soviet Union and Poland.

Two longer articles are followed by several essays which resulted from a conference held by the Anglo-Belarusian Society and other London-based organisations at University College London in March 2014.

This issue also includes the transcript of the first Annual London Lecture on Belarusian Studies, and two book reviews – one by Stephen Hall examining the meaning of Europe for the Belarusian and Ukrainian authorities, and the other by Siarhej Bohdan looking at relations between various ethnic groups in Eastern Poland in the inter-war period, which is now Western Belarus.

The issue features authors from Estonia, Lithuania, United Kingdom, Belarus and Sweden.

Belarus Profile

The BelarusProfile.com database now includes the following personalities: [Aliena Arciomienka](#), [Andrej Parotnikaŭ](#), [Uladzimir Kaltovič](#), [Dzmitryj Markušeŭski](#), [Juryj Caryk](#), [Kiryl Koktyš](#), [Aliaksandr Aŭtuška-Sikorski](#), [Andrej Rusakovič](#), [Siarhej Vazniak](#), [Uladzimir Kavalkin](#).

We have also updated the profiles of [Stanislaŭ Kniazieŭ](#), [Anton Kudasau](#), [Valiery Kulakoŭski](#), [Aliaksandr Lahviniec](#), [Dzmitry Lazoŭski](#), [Žana Litvina](#), [Anatoł Lis](#), [Ihar Laciankoŭ](#), [Alieh Latyšonak](#), [Paviel Latuška](#), [Viktar Lukašenka](#), [Anatoł Liabiedzka](#), [Anatoł Marazievič](#), [Viktar Marcinovič](#), [Siarhiej Maskievič](#), [Andrej Šorac](#), [Andrej Hajeŭ](#), [Uladzimir Amaryn](#), [Maksim Jermalovič](#), [Dzmitry Charytončyk](#).

Belarus Policy

The Ostrogorski Centre continues to update the database of policy papers on BelarusPolicy.com. The papers of partner institutions added this month include:

- Ina Ramašeŭskaja, Natallia Rabava. [What motivates public servants in Belarus: money not important](#). BIPART, 2015.
- Uladzimir Kavalkin. [Public procurement: increasing transparency and accountability](#). BIPART, 2014.
- Ina Ramašeŭskaja, Tacciana Čulickaja. [Do government agencies operate effectively? Modern challenges and responses](#). BIPART, 2014.
- Kaciaryna Korzun. [Public-private partnership in Belarus: what is after the law?](#) BIPART, 2014.
- Dzmitry Markušeŭski. [On the way to e-government in Belarus](#). BIPART, 2013.
- Anastasija Luzhina. [Pension benefits as a component of the social security system](#). BEROC, 2015.
- Katsiaryna Barnukova. [Support of maternity in Belarus](#). BEROC, 2015.
- Katsiaryna Barnukova, Anastasiya Luzhina, Katsiaryna Lisiankova . [Pension system of belarus: current state and necessity for reforms](#). BEROC, 2015.
- Alieh Mazol. [Local government in the Republic of Belarus](#). BEROC, 2015.
- Dzmitry Kruk, Katsiaryna Barnukova. [Decomposition of economic growth in Belarus](#). BEROC, 2014.

Any partner organisation of BelarusPolicy.com can submit its research for inclusion onto the database by completing this [form](#).

The Ostrogorski Centre is a private, non-profit organisation dedicated to analysis and policy advocacy on problems which Belarus faces in its transition to market economy and the rule of law. Its projects include Belarus Digest, the [Journal of Belarusian Studies](#), [BelarusPolicy.com](#) and [BelarusProfile.com](#). Follow all the news from the Ostrogorski Centre on [Facebook](#). □

New Policies on Deposits, Waiting for Foreign Money – Digest of Belarus Economy

On 20 November 2015 Belstat, the official statistical body, released the updated macro-economic statistics. Disappointing figures on exports and manufacturing suggest that the economic downturn in Belarus continues.

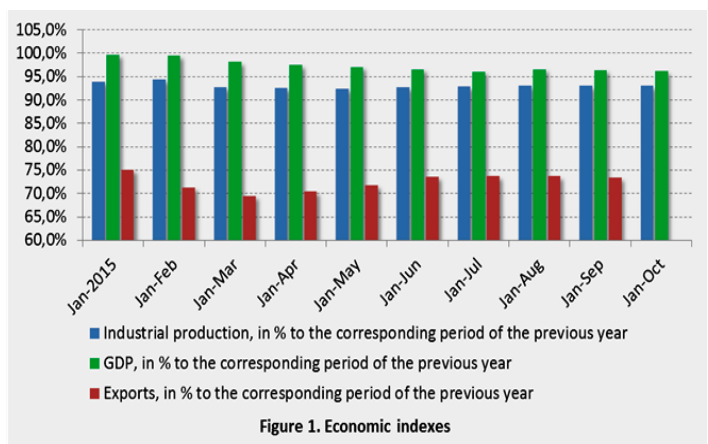
However, on 11 November 2015 the National Bank of Belarus announced reforms on the deposit market. The bank tries to replenish the deposit's term structure hoping that it can boost cheap investment in the economy.

Meanwhile, rising debt among individual companies raises the question of how much worse things can get. Loss-making state-owned enterprises dragged down by overdue debts are hoping that a good order can guarantee them potential further credit.

Economic Depression: Approaching the Bottom

According to Belstat by November 2015 GDP had dropped by 3.9 per cent year-on-year. The economy has lost its August "miracle" returning to the [most negative forecast figures](#). After a half-point positive adjustment in August, GDP decreased twice by 0.2 percentage points in September and October. Exports have weakened further, falling to their lowest levels in the last decade (see figure 1). The Prime-Minister [Andrej Kabiakoŭ](#), on 24 November 2015 admitted that the government's measures which were introduced in order to increase exports and find new markets were still not enough.

Nevertheless, the authorities hope to override the so-called "external-factors" in the economic crisis by significantly increasing the volume of loans granted to enterprises to boost their economic activity. They expect that these measures coupled with old-fashioned Soviet style manual controls will bring economic salvation.



However, according to the National Bank of Belarus in the first nine months of the current year Belarusian banks decreased the volume of lending using the national currency by 6.5 per cent. The volume of new credits granted in foreign currency also declined by nearly \$2.5bn.

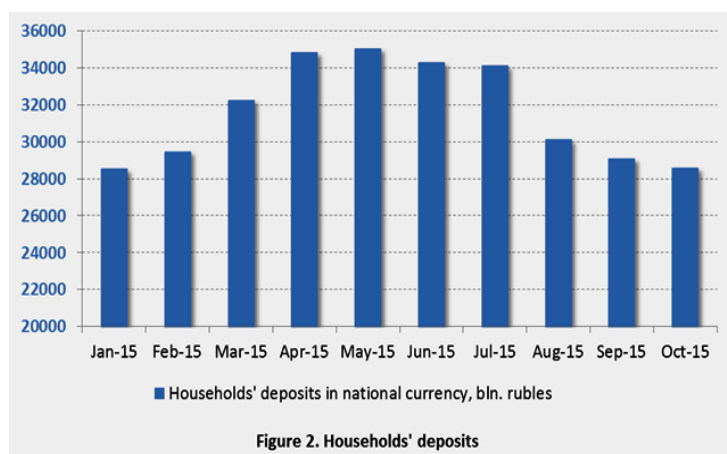
Thus, to reverse such a negative tendency Belarus urgently needs [new credit lines](#) from the Eurasian Development Bank and the International Monetary Fund (IMF). However, on 20 November 2015 the National Bank of Belarus announced that the

Belarusian authorities failed to conform with an IMF three-year programme of reforms supported by a new loan of \$3bn.

Although that will spare the economy further short-term pain, the disease will remain. Loans that should have gone to vibrant companies with promising new ideas go instead to state "[zombies](#)". Hence, to sustain economic growth the economy needs increasing credits.

Deposit Market: Dreaming about Long-term Structure

Taking into account [tough and long run negotiations](#) about new loans with the Eurasian Development Bank and the IMF the only way to replenish the financial resources of the banking system is to attract additional deposits. However, by 1 November 2015 in comparison with May deposits in Belarusian rubles shrank by 22.7 per cent (see figure 2).



In this light on 11 November 2015 the National Bank of Belarus declared new rules for the deposit market in Belarus, which was adopted within the government's program of macro-economic stabilisation.

The changes include the addition of an irrevocable type of deposits, not allowing early withdrawal of invested funds, and a 13% tax on income from interest on short-term deposits, less than 2 years for foreign currency deposits and less than 1 year for deposits in Belarusian rubles.

The National Bank of Belarus aims to build a long-term

resource base for banks, and create a more efficient use of financing, including the availability of long-term loans for economic entities and the population. However, several pitfalls still exist before results will be achieved.

First of all, under the conditions of the current economic crisis, low competitiveness of Belarusian enterprises on external markets (primarily in Russia) decreases their investment attractiveness and leads free cash funds to continue to concentrate where they can bring the highest profit with the lowest risk and costs. This is on short-term deposits in Belarusian banks.

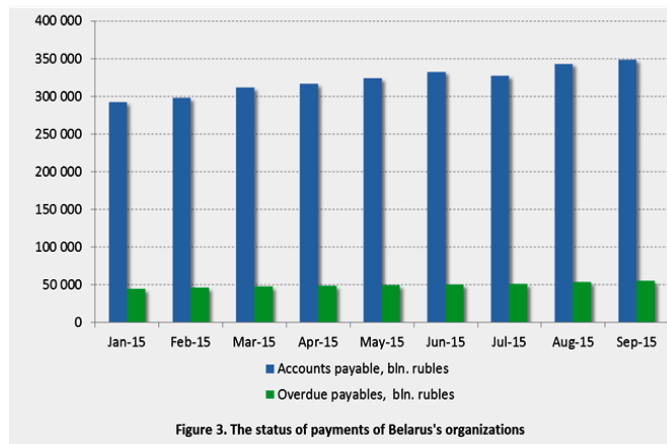
Secondly, repeated financial crises, the lack of tax stability and the protection of owners' rights, have changed the preferences of Belarusians. For them it is better to have more cash in their hands today than make investments in long-term deposits.

Thirdly, the decrease in the level of the population's income will lead to a further reduction in savings and, hence, to an additional drop of deposits in Belarusian banks. According to Belstat, the real disposable cash income of the population in January – August of 2015 decreased by 5.3 per cent in comparison to the same period of the previous year. In dollar terms this decline amounted to about a third.

Companies' Debts: Losing Ground

But dig deeper and the situation looks even less promising. The increase in accounts payable in recent months indicates that companies, including state-owned enterprises, repay loans slower than banks issue new ones (see figure 3).

Moreover, [persistently harsh external macro-economic conditions](#) suggest that state "giants" will compete harder for additional financial resources provided under another extensively used state policy that of direct preferential lending.



However, the use of the direct lending policy means that state-controlled banks lose the ability to perform the key function of financial mediation. They can no longer select effective credit projects.

Taking into account the tough prospects of obtaining new loans from the IMF and Eurasian Development Bank, coupled with the National Bank of Belarus's [new policy of monetary targeting](#), government bonds remain as the key instrument for the implementation of such lending.

In July 2015 Belarusian large state enterprises like the Minsk Tractor Works (MTZ) and Gomselmash received such help. The timber industry hopes for the same after the authorities' decided on 22 October 2015 to transfer their problem assets to the control of the Development Bank of Belarus.

Trying to avoid the acceleration of inflation, the government issues new bonds and turns and therefore turns into a formidable competitor for private companies. A distorted economic environment reduces the incentives for enterprises to increase their efficiency and leads to a decline in Belarus's economic development.

Summing up, all this puts pressure on the National Bank's new economic policy. If the authorities decide to switch on the printing machines it could lead to a financial crisis once again.

Aleh Mazol, Belarusian Economic Research and Outreach Center (BEROC)

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

Will an Economic Downturn Cause Unrest Ahead of Elections?

On 2 July Belarus witnessed a rather unusual show – 200 Chinese workers marched dozens of kilometres towards the city of Homiel in protest against wage arrears and poor working conditions. These foreign workers are currently employed by the Chinese company Siuan Yuan which is building a paper factory.

A similar protest organised by Belarusians is almost unthinkable in modern Belarus. The government controls every employee through a contract system and dissidents who raise their voices may lose their jobs instantaneously, while independent trade unions have almost disappeared under Lukashenka's rule.

However, the situation may be changing as Belarus experiences its deepest industrial crisis since the collapse of the USSR. Production is constantly falling and enterprises are having to make personnel cuts.

While previously the government restricted layoffs to prevent social unrest, currently they are using a hands-off approach.

Ahead of the presidential election the authorities will try to keep the situation calm, but afterwards Belarus may face a period of painful restructuring and social tension.

Chinese Protest March – A Sight Unseen in Belarus

On 2 July a column of Chinese workers of around 200 people employed at a Chinese-owned construction company in Dobruš town left their workplace and marched 33 kilometres towards Homiel, accompanied by emergency services and special police units. The Belarusian police, well-trained to prevent massive political protests, stood by with rather confused looks on their faces, having no idea what to do with the angry Chinese crowd.

The deputy head of the presidential administration [Mikalaj Snapkoŭ](#) and head of the state wood industry consortium Jury Nazaraŭ personally took part in the negotiations between Chinese diplomats, the company and workers.

The workers explained to journalists that they were protesting against late salaries. After failed negotiations with Chinese diplomats, who quickly arrived in Homiel, they announced that they were heading towards Minsk and intend to speak to the Chinese ambassador. However, closer to evening the diplomats persuaded workers to return to their workplace by bus.

As it later turned out, the workers were dissatisfied not only with delayed salaries, but also with the working conditions at their construction site. They had no days off, the company took their passports, they had no right to buy Belarusian sim cards to call home, and the food and lodging were in poor shape as well. To top it all off, when they did get paid, their salary was lower than the employer had originally promised.

□The Chinese protest was a real sensation among Belarusian media outlets – the way the citizens of half-totalitarian China defended their labour rights very much contrasts with the local climate. Belarus has not seen worker's protests of this type since the 1990s when Lukashenka's power had not calcified and an economic crisis was still unfolding.

Industry Crisis May Cause Social Tension

Today, Belarusians who work in state-owned industries can easily lose their job for dissenting against the upper management and there are virtually no protections in place to ensure their rights are being observed. Virtually all independent trade unions, save a few, have been eliminated and most workers belong to the state-controlled [Federation of Belarusian Trade Unions](#). However, this year the situation may change unexpectedly, and the reasons are becoming more apparent by the day.

The industrial sector of the country, and in particular machine building – the core of the Belarusian economy since the Soviet era – is [experiencing hard times](#). In 2014 Belarus produced 20-50% less machinery than the year prior according to official statistics. Numerous industrial enterprises, such as the wood industry factory Homieldreŭ, the Mahilioŭ automobile plant, machine builder Strommašina, the Svietlahorsk concrete production plant and many others have either reduced the length of their working weeks and sent workers on unpaid holidays or cut their salaries.



As a result, in 2014, many Belarusian industrial giants, including Hrodna Azot, Mahilioŭ Chimvalakno, Minsk Automobile Plant and BelAZ, had to lay off between 5 to 20% of their employees.

According to the World Bank's estimates, state-owned industries employ around 10% of individuals which they classify as economically unjustifiable personnel, who hinder their economic efficiency.

The government has been reluctant to make cuts to the labour force for decades, as they believed that minimal social guarantees and salaries are better than unemployment which can lead to political turmoil. But with the current layoffs their concerns about the effect of unemployment may be realised ahead of the October presidential elections.

Can Workers Spark a Belarusian Maidan?

Tacciana Čyžova, a researcher at the Political Sphere Institute, [has been monitoring](#) protest activity in politics and the economy for the past few years. In a comment to BelarusDigest she noted that in 2014 the level of protest activity at Belarusian enterprises clearly grew when compared to 2013. The conflicts usually were tied to salaries and working conditions.

However, these clashes with companies' management usually do not transcend the territory of the enterprise or town and last no more than 1-2 days. Enterprise managers and local authorities usually seek to resolve the conflict peacefully and as quickly as possible, tactics which apparently are part of a model established by the central government.

A fine example of these tactics being employed happened in 2014 when a [protest by ambulance workers](#), who after minor concessions from the authorities, promptly returned to their jobs. As the economic situation is unlikely to improve much ahead of elections, the authorities will attempt to avoid any radical reforms and mass layoffs in order to keep situation on the ground calm. Any mass protests, let alone a Maidan, seems very unlikely, Čyžova believes.

Moreover, this time even most opposition-minded candidates running for the presidency have warned against mass protests. A leftist party leader [Siarhei Kaliakin](#) says that violent scenarios will not bring results, but rather lead to tragedy. [Tacciana Karatkievič](#), a candidate from Tell the Truth campaign, believes that the very idea of protests is not popular in modern Belarusian society, but she would join a protest and try to turn it peaceful if people do it spontaneously.

Meanwhile, United Civil Party leader [Anatol Liabedźka](#) stated that "we are not going to dissuade people from peaceful protests, as other candidates are, because the authorities push people to them with their unprofessional policies".

While the opposition agrees with the authorities about the danger of a violent scenario (clearly with a potential Ukrainian situation developing in the back of their minds), any real developments will probably follow the election. Belarus needs painful economic restructuring, and mass layoffs may well be on the menu shortly after Aliaskandr Lukashenka assumes the presidency for his fifth term in power.