

Skyrocketing economic growth and weak regional development – digest of the Belarusian economy

On 16 March 2018, the official statistical body of Belarus Belstat has announced that GDP growth in the first two months of the year has accelerated.

Meantime, the weak regional development cast doubt on the sustainability of Belarusian economic growth in the future. Decreasing population number, lack of investment, and depressed business climate accompanied by low average wages play here a crucial role.

Finally, on 20 March 2018, the President of Belarus Alexander Lukashenko has announced plans for the establishment of a new ministry – The Ministry of Digital Economy. The digital transformation of the economy needs authorized governance.

Economic growth: Shifting to the fifth gear

According to Belstat, in January-February 2018 the GDP growth reached 5.6 per cent year-on-year. The industrial production has increased by 10.3 per cent and exports of goods by huge 36.5 per cent (in January). Finally, during the first two months of 2018 investment in fixed capital has increased by 24.8 per cent year-on-year.

The current positive economic figures ground on several factors. First, the world oil prices increased during the previous year. Second, because of administrative stimulus real

wage growth accelerated, which led to the expansion of consumer demand.

Third, because of first two factors, the economic mood of economic agents significantly improved. Firms expect more orders, hire more workers, and actively lend and invest. Households, hoping for more income in the future, actively take loans, increasing current consumption. Banks began to lend more actively while continuing to reduce credit rates.

These positive shocks warmed up domestic demand. In addition to domestic demand, new shocks spurred external demand (for example, Russian demand for Belarusian exports began to grow due to increased growth in Russia amid more expensive oil).

Meanwhile, because of active administrative policy, the real wage growth since the 4th quarter of the last year was about 30 per cent. This giant increase gave rise to a wave of consumer optimism and demand but also produced a negative impact on price stability, the dynamics of the exchange rate, the fiscal balance, competitiveness, and profitability of Belarusian firms.

In the case that the authorities in the future will not abandon the artificial stimulus of wages, these negative effects will continue to grow, turning into a full-blown [threat to price and external stability of the Belarusian economy.](#)

Regional development: Weak performance

Meanwhile, the steady decline of the district Belarusian population in general and its working-age part, in particular, reveals [crisis tendencies in the regional development.](#) According to Belstat, the district's population

of Belarus constantly decreases and in comparison with the beginning of the century its number shrank by almost a quarter (see Figure 1), contrary to the urban population of large cities that increased by approximately 9 per cent.

Moreover, the official statistics reveal even more negative trend for the district's working-age population. During last two decades, its number steadily declined by 1.4 per cent each year and in the last few years its reduction even amplified. All these mean that rural life loses its attractiveness to both adult and young Belarusians.

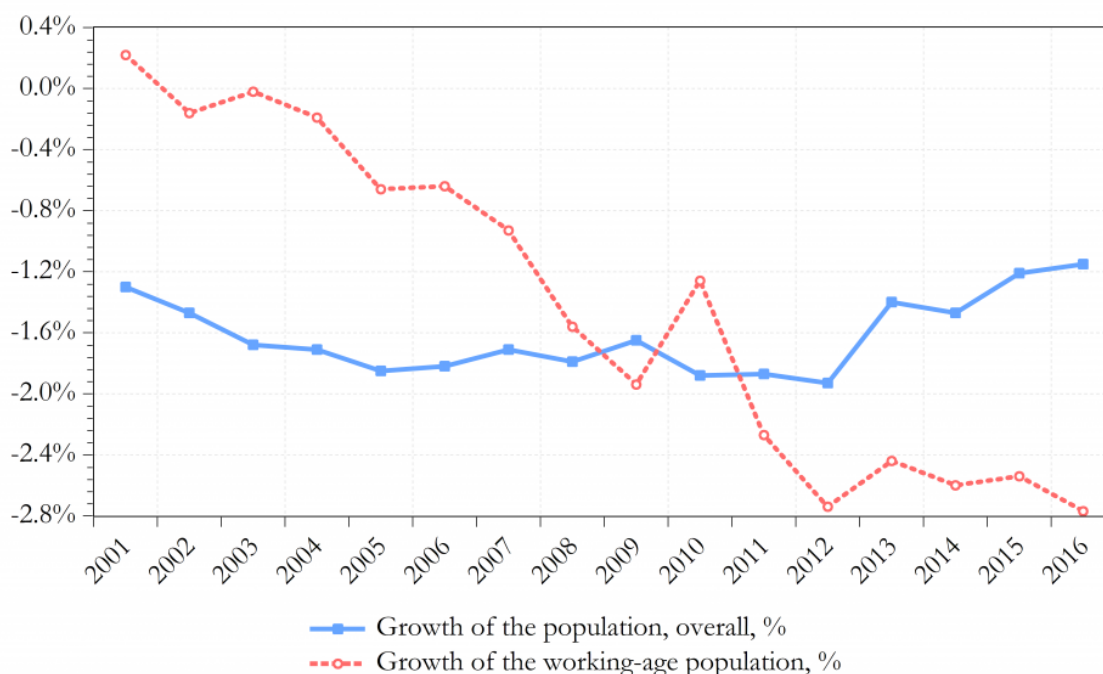


Figure 1. Population dynamics by districts

One of the key reasons stays the significant difference in wages between districts and large cities. The average salary in districts constitutes approximately 78 per cent of the average salary in major cities of Belarus.

The dynamics of entrepreneurial activity in the districts adds additional pain. In particular, over the past three years, the number of micro and small organizations has decreased by 5 per cent (Figure 2). At the same time, the additional development of small business in rural areas possesses potential sources

for regional economic growth and, first of all, in agribusiness.

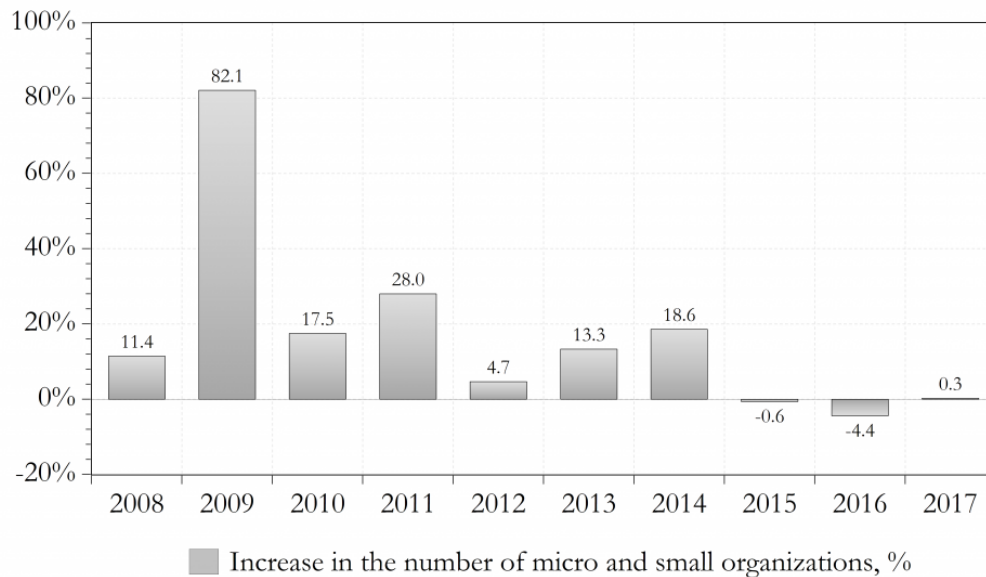


Figure 2. Dynamics of entrepreneurial activity in the districts

Additionally, Belarusian districts significantly lag behind in attracting foreign direct investment (FDI) that represent a major source of new technologies and create a potential for export diversification of regional goods. For example, during 2005-2015, districts on average attracted 4.6 times less FDI per capita than the major cities of Belarus.

IT sector: Building a new regulator

On 20 March 2018, Alexander Lukashenka has announced plans for the establishment of the Ministry of Digital Economy that will bring the entire domestic economy on the digital platform.

According to Alyaksandr Kurbatski, a member of the Council established for the development of the digital economy in Belarus, IT would penetrate into all sectors of the economy. Now virtually any sphere of human activity affects

digitalization and this process really needs to be managed and coordinated somehow.

The creation of a new Ministry fully fits into the ambitious task of the authorities to turn Belarus into an IT-country, reorienting the Belarusian IT-sector to a product model. The government expects that this will significantly increase the value added and increase the level of technological equipment.

However, the long-run consequences of this project still stay unclear. The expectations of long-term positive effect ground on the fact that any progress in improving the level of technical equipment and the integration of Belarusian firms into the global chains will add additional benefits to the country.

On the other hand, additional benefits and preferences for the IT-companies may exceed effects obtained. Moreover, the focus on sectoral preferences may adversely affect the transparency and competitiveness of the business environment.

In the short term, the decree may have a beneficial effect, but only in the form of capital inflows to the country's IT sector.

Taking all together, the skyrocketing economic growth of the first two months of the year added optimism to the whole economy, however slow progress in the regional development cast doubt on its long-run sustainability.

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Belarusian Demographic Trends: Rapid Ageing and Depopulation

In 2014, the Belarusian authorities started preparations for a new demographic security program. The problems facing Belarus are not unique in Europe, but in many ways they look worse than in most EU countries.

Belarus continues to face a trend of depopulation, and with a birth rate of 1.6, there appears to be no chance for it to sustain its current level, much less grow. Demographic pressures will force the government to raise the age of retirement, at least for women, from 55 to 60.

In neighbouring Poland the authorities have already raised the retirement age up to 67 in attempt to deal with its own demographic issues.

The healthcare and social security systems remain under a tremendous amount of pressure, as the number of people of working age in society is steadily declining. Mortality and fertility rates are not solely responsible for this trend, as emigration also affects Belarus' demographic situation. Many Belarusians say that the country "lacks the necessary hands to work."

To improve the situation, the state should, on the one hand, liberalise the economy, and on the other increase benefits for child bearers. When working on a new program of demographic security, the authorities must rely on real statistics, as the official data does not reflect the

reality.

Belarusian Deteriorating Demography

Last month [Mariana Shchotkina](#), the Minister of Labour and Social Protection, announced the launch of their new programme entitled Demographic Security of Belarus. The current programme ends in 2015. Its results were, overall, considered to be unsatisfactory, although Belarus has improved its position according to several indicators.

Since gaining its independence Belarus has lost about 750,000 people. According to official data, 2014 became the first year since 1994, when the nation's population saw an increase. However, this data is inadequate in assessing the nation's total population as Belarus' official statistics ignore the exact number of Belarusians who have [emigrated](#).

Both independent and pro-government analysts say that the Belarusian National Statistical Committee is not presenting an honest picture. For one, they have concluded that the migration balance for Belarus is negative, meaning more people are leaving than coming in. When considering the overall picture, it is clear that the official statistics are not accurately portraying the true demographic dynamics at play in Belarus.

To ensure level of population replacement reaches an equilibrium, it is necessary for every woman to give birth to 2.15 children. At present, it is around 1.6 per woman in Belarus. Two-thirds of families have only one child. Belarus remains a country of [broken marriages](#), as about half of all families split up and there is no reason to believe that this figure will change in the near future.

As it was 20 years ago, women in Belarus make up more than half of the population. According to official statistics, in early 2014 Belarus has 4,401 thousand men and 5,067 thousand

women. Many [Belarusian villages](#), where a predominantly elderly population lives, have only one man to a much numerous population of women co-inhabitants.

This is due to the well-documented fact that Belarusian men tend to die much younger than women. Male life expectancy in Belarus is about 67 years, while their female counterparts are living until they are approximately 77 years old. In neighbouring Poland these figures stands at 76 and 80 years respectively. According to the World Health Organisation, Belarusian males between 15-60 years of age are 3-4.5 more likely to die than males in the European Union.

Consequences of Demographic Failure

Many countries are struggling, and unsuccessfully so, with depopulation and ageing, but Belarus is unique in its own way.

Despite the high mortality and low fertility rates, the authorities have not carried out any pension reform. Belarusian women are permitted to [retire at the age of 55](#) and men at 60. Many professions, such as the police, allow their employees to retire at 45. Further delays in pension reform will undoubtedly cost Belarus dearly in the future.

Without serious reform, the healthcare system will come under attack. Promoting a healthy lifestyle still appears to be an unpopular policy in the country, as Belarusians remain among the heaviest drinking and smoking nations in the world. The number of diseases will continue to be high, while Belarusian medicine remains largely in the hands of the state, which has less and less money for these services.

The system of social protection, without any reforms, will begin to buckle under the weight of a reduced number of people entering the workforce. Belarus remains a net emigration country, as there are more people leaving than coming. For this reason, this apparently permanent emigration trend will put additional pressure on the Belarusian budget as it

struggles to maintain its workforce population at a healthy level. This will force the government to raise taxes, which could also lead to another bout of emigration. The government's attempts to impose a [tax on the unemployed](#) show how serious the situation is in Belarus as it struggles to find an influx of working hands to bolster its labour force.□

The general concept of family values also appears to be rather foreign to Belarusians. Local organisations hardly take the time to deal with this problem, and churches do not have the opportunity to become engaged in this work. Last year, the government banned a march in defence of family values, even though the Orthodox and Catholic churches supported it. The state promotes family values □□only with its words, not with its actions. The Belarusian leadership is a case in point. In Belarus, nobody knows precisely where Lukashenka's wife lives, nor who gave birth to Lukashenka`s youngest.

Is There any Chance to Rectify the Situation?

It seems rather unlikely that Belarus will be able to reverse the current trend of demographic decline, a process that has been unfolding over the past 20 years. Many people choose not to have children or to have only one for financial reasons, and the Belarusian government has no money to provide a high level of well-distributed social benefits for its citizens. An average Belarusian teacher earns about \$400 monthly, while a doctor brings in only \$ 600. With these kinds of salaries, many Belarusians are simply afraid to have a two or three child family.

According to a UN forecast, by 2025 the population of Belarus will drop down to 8.6 million people. The rate of economic growth will also continue to decrease. Without the necessary funds, carrying out reforms to deal with its demographic issues will be difficult, and waiting any longer will make them even more difficult to implement. These reforms must be pursued as soon as possible.

The Belarusian government must start priming its policy based on real data, not on the current National Statistical Office's information. The authorities have to liberalise the economy, which can help in an effort to have more people stay in Belarus and even convince some emigrants [to return](#). The state will be forced, at one point, to implement pension reform in order to avoid a full collapse in its the social security system. Raising the retirement age for women to mirror that of men can be a good start.

Dealing with the nation's low fertility rate remains one of the most difficult tasks at hand, as it is necessary to provide parents a large payout at the time of birth and for several years after a child is born. Also, the state must drastically revise its strategy in promoting family values. If the authorities accomplish these tasks, Belarus will have at least a shot at correcting the current demographic situation.

Belarus Censuses: Population Declines, National Identity Strengthens

Official population censuses in Belarus conducted in 1989, 1999 and 2009 reveal a number of interesting trends.

They show that the population is declining, the proportion of those who identify themselves as Belarusian is increasing and the role of the Belarusian language is weakening. The period of Lukashenka's rule has coincided with the sharpest decline of population since the collapse of the USSR.

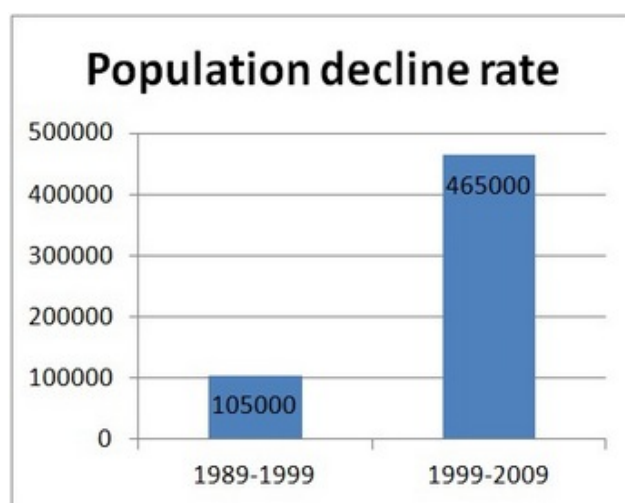
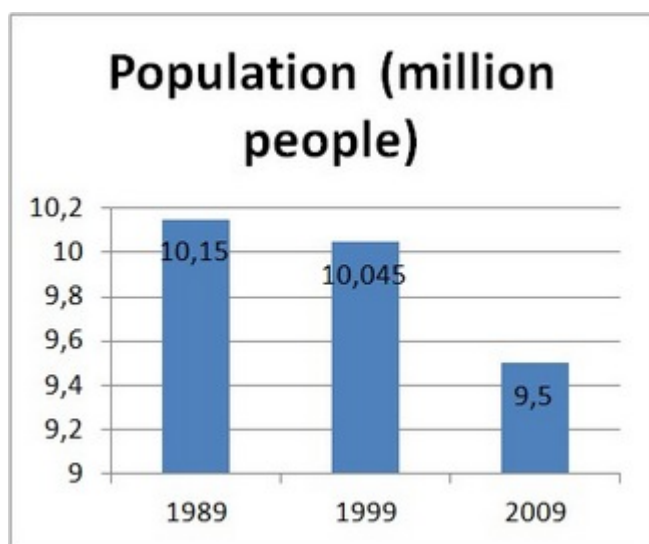
The other important development is that the use of the

Belarusian language has reduced dramatically, leading to the formation of a Russian-speaking Belarusian nation. It is remarkable that the largest share of Belarusian speakers is among those who identify themselves as Poles.

General Trend: Depopulation

Belarus, along with many other European countries, faces a problem of depopulation. The government seems to be aware of this, as they included statements on demographic security and policy in such important national documents as the Programmes of Social and Economic Development and Concept of National Security. However, the data from the censuses shows that the policies towards tackling demographic problems have been inconsistent and ineffective.

The total population decreased by 650,000 in 1989-2009. The main reason is natural ageing, observed in most European countries. Another major reason for depopulation is emigration – economic, and to a lesser extent, political.



While in the first decade (which was a stormy transitional period) the population decreased by 100,000, in the second decade, marked by consolidation of the authoritarian regime, the rate of population decline went up – to more than 500,000 between 1999 and 2009.

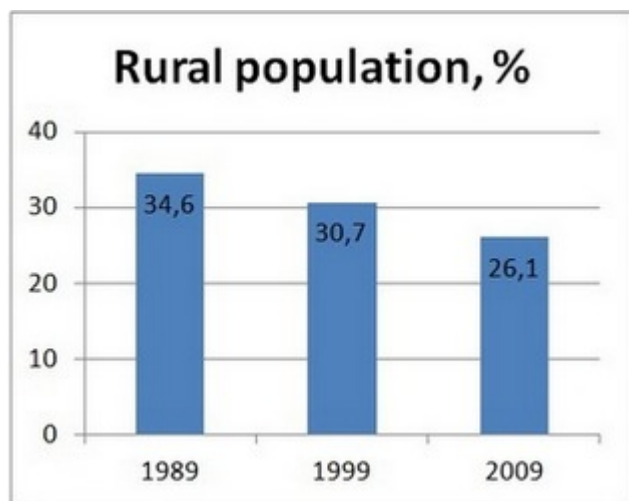
Of course, it would be wrong to assume that only changes in the political regime caused this. Rather, complex factors are involved. The obvious thing, however, is that the population of Belarus is still decreasing, indicating the failure of the demographic policy of Belarusian authorities.

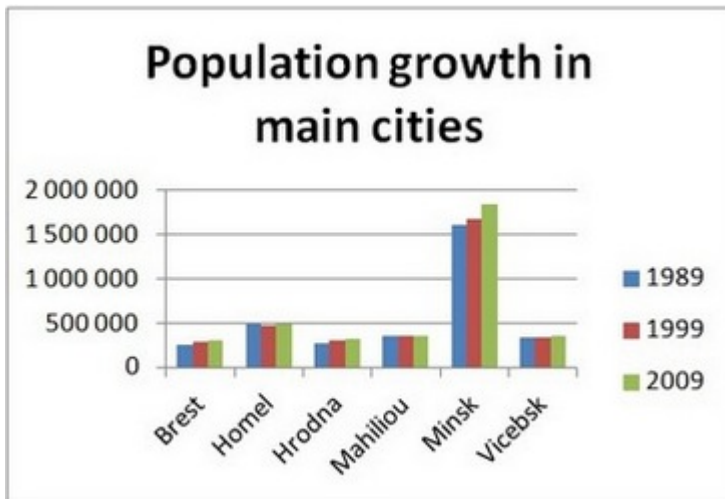
Urbanisation: Soviet Legacy and Over-Centralization

The process of urbanisation continued throughout the period. The urban population reached 74 per cent in 2009.

Interestingly, the population of regional (voblast) centres of Eastern Belarus increased only slightly or even decreased (as in Homel), while western cities, Hrodna and Brest, grew considerably (+ 50,000 each).

This is probably due to the fact that Eastern Belarus was incorporated into USSR twenty years earlier than its Western part. Hence, here Soviet industrialization, accompanied by urbanisation, was implemented earlier, while Western Belarus retained a considerable rural population.





Minsk, the capital, remains the most populated and fastest growing city of Belarus. As the main economic and educational centre, it attracts young people from all over the country. In terms of numbers, Minsk has grown by 230,000 in the last two decades. A fifth of the whole population lives there now.

Such over-concentration of resources in the capital along with regional decline poses serious problems, which any government regardless its political regime will have to face in future.

Migration: Low Immigration and Hidden Trends in Emigration

Unlike in western countries, in Belarus the decreasing native population is not replaced by an inflow of immigrants.

According to official statistics, only 39,000 immigrants came to Belarus in 2005-2009, which is not sufficient to balance the native population decline. Most of the immigrants to Belarus originate from former soviet CIS countries (32,000) – predominantly from Russia, Ukraine, Kazakhstan and Turkmenistan. The share of non-CIS citizens is insignificant and the biggest groups include Chinese, Lithuanians and Latvians.

According to official data, in 2005-2009 around 30,000 Belarusians left their homeland, but independent experts often dispute this figure. The official methodology does not include some important categories of migrants, such as labour migrants

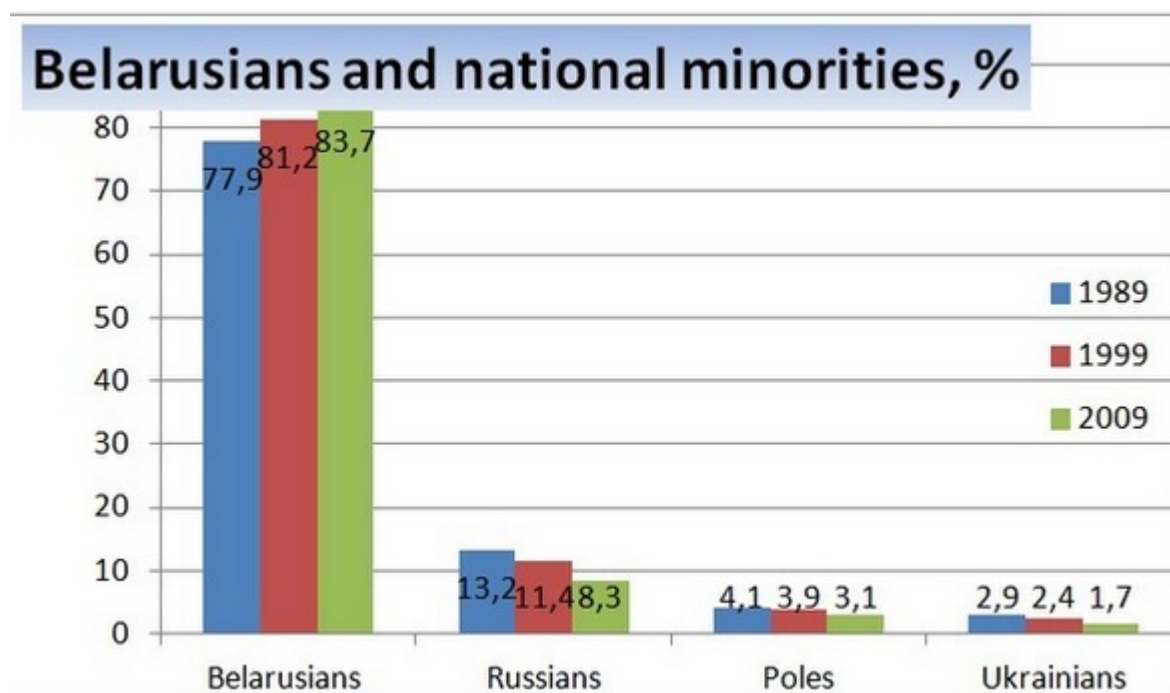
to Russia. Today this is perhaps the biggest Belarusian migration group, data on which is not officially published.

Identity: Belarusianisation without Belarusian Language

Belarus remains a relatively monoethnic nation state.

Notably, the number of people who consider themselves Belarusians increased from 80 per cent to 84 per cent over the last twenty years. Among the national minorities the largest are Russians, Poles, and Ukrainians.

Traditionally, the Russian minority resides in the central and northern parts of Belarus and big cities, while the Polish minority makes up a considerable part of the western oblast of Hrodna, and Ukrainians settle more densely in the southern Brest and Homel regions near the Ukrainian border.



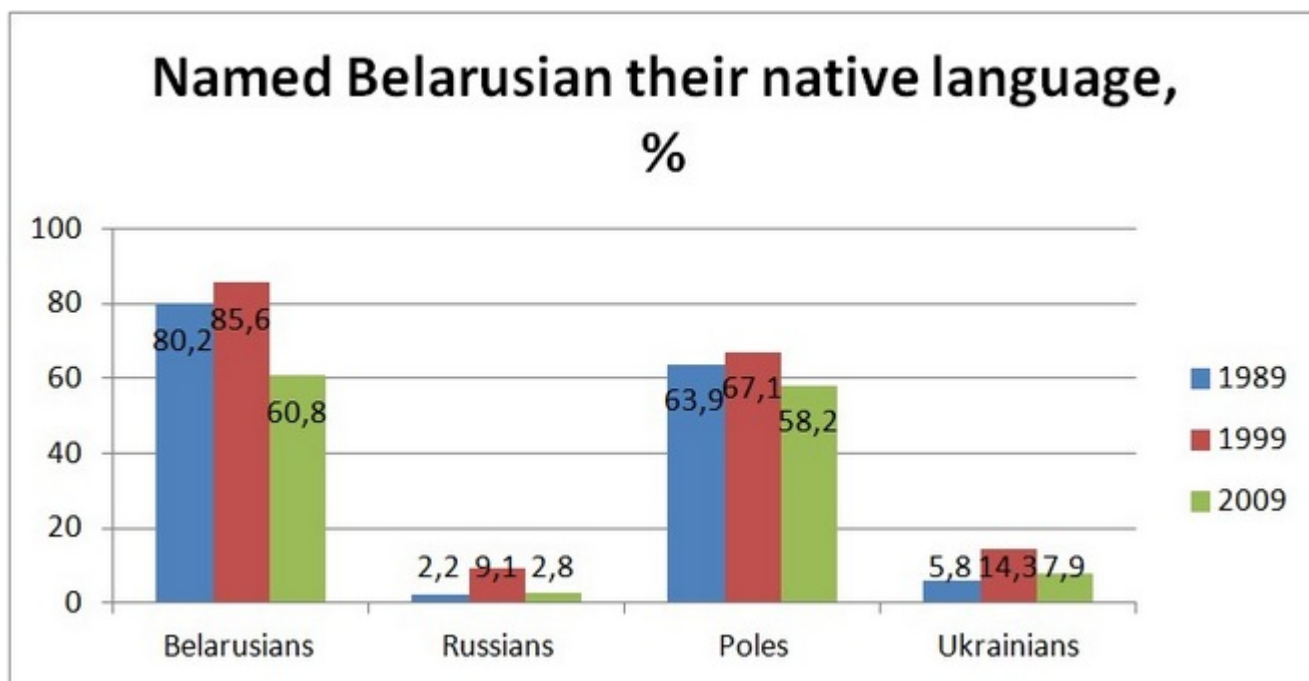
As the diagram shows, the size of each of minority group (especially Russians) has been decreasing since 1989. This trend apparently shows that minorities assimilate and change their identities along with the development of the Belarusian independent state. On the other hand, this may be a result of growing national consciousness among Belarusians, who

identified with the other nation previously.

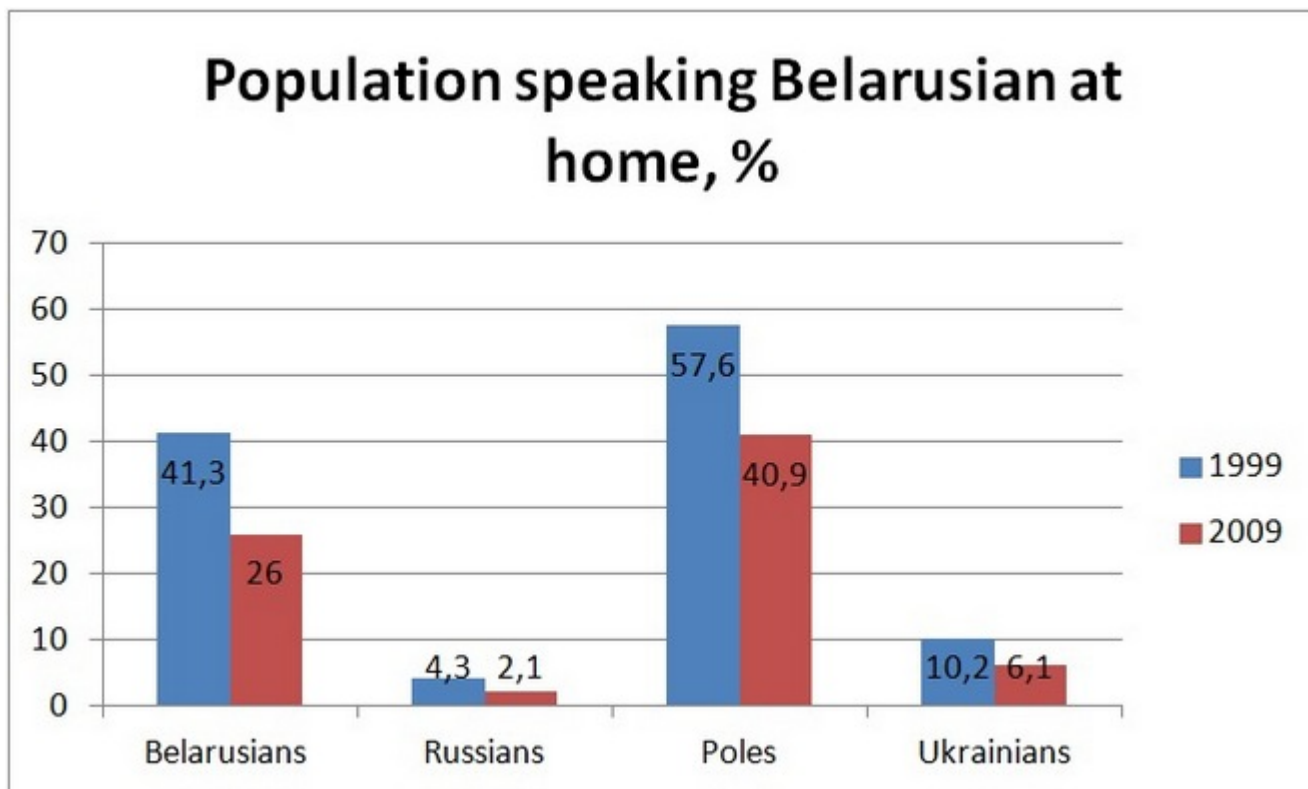
However, this growing national consciousness is not based on language and culture of the dominating ethnic group, as is usually the case with modern nation states.

Here, a rather different picture is observed: over the period, the significance of Belarusian language has declined. While in the 1990s, before the Lukashenka regime had set in, national Renaissance policy improved the position of the Belarusian language, stabilisation of the regime brought the decay of the Belarusian language.

Speaking this language was associated with opposition to Lukashenka's pro-Russian regime. As a result, its speakers were implicitly or explicitly excluded from politics and public space in general. This is clear from the diagram below.



The same concerns such indicators as use of Belarusian language at home, which shows the actual viability of the language. Here, the decline is even more dramatic:

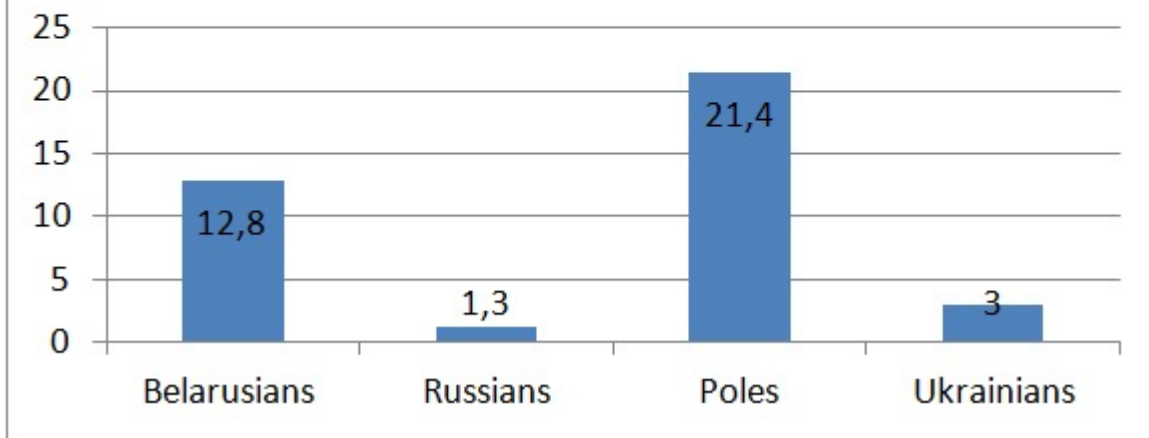


Belarusian Poles are an interesting phenomenon when it comes to the Belarusian language. They are the biggest national group in relation to the total number of a group who speak Belarusian at home. Out of 295,000 Poles, 120,000, or 40 per cent, speak Belarusian at home, while the share of Belarusians speaking Belarusian at home reaches only 26 per cent.

The term “Pole” in Belarus has a rather confusing and ambiguous meaning, as many consider Belarusian Poles as Belarusians of Roman Catholic tradition, who historically were under a strong influence of Poland. This group, though referring to the Polish tradition, evidently is a community that strongly preserves the features of Belarusian culture.

In Minsk, the number of people who indicated Belarusian as their native language has decreased almost two-fold within the last decade (1999-2000). In general, only a little more than 10 per cent of the urban population of Belarus speaks Belarusian at home, and for the largest cities this number is much smaller.

Urban population speaking Belarusian at home in 2009, %



Thus, Belarusian remains a language of the disappearing rural population, and its future in urban centres does not look optimistic. The language policy of Lukashenka led to the formation of a particular type of modern Belarusian identity, with urban Russian-speaking population considering itself an independent community.

Vadzim Smok