

# **Waiting for a Miracle: Digest of Belarus Economy**

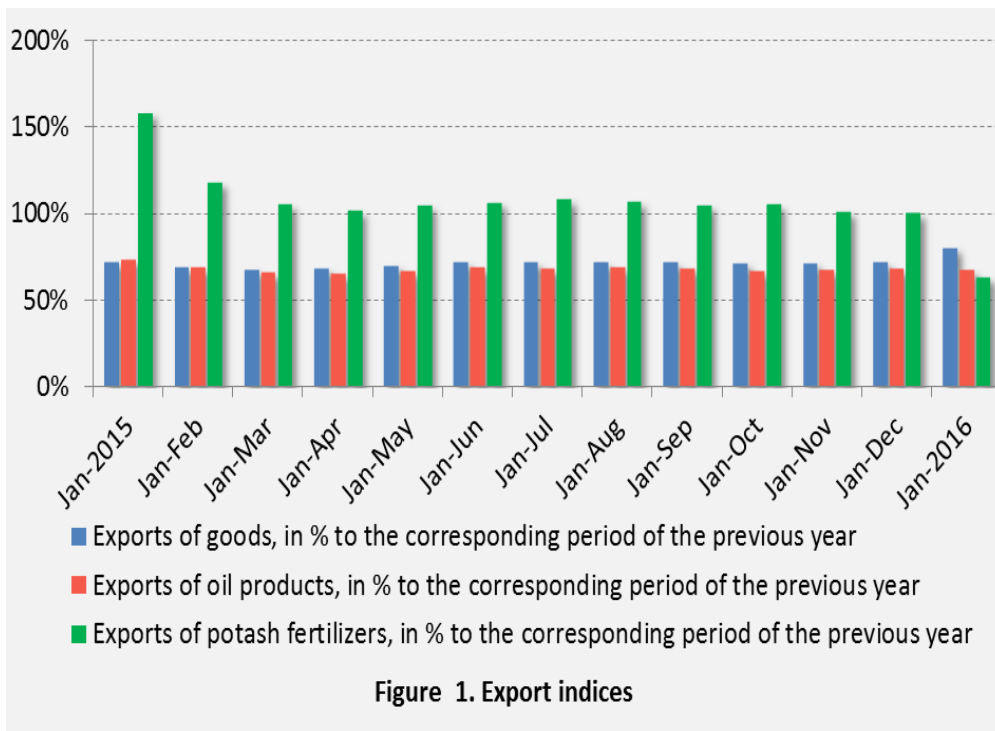
On 28 March 2016 the Council of the Eurasian Fund for Stabilisation and Development (EFSD) approved the provision of a new loan to Belarus.

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).



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).

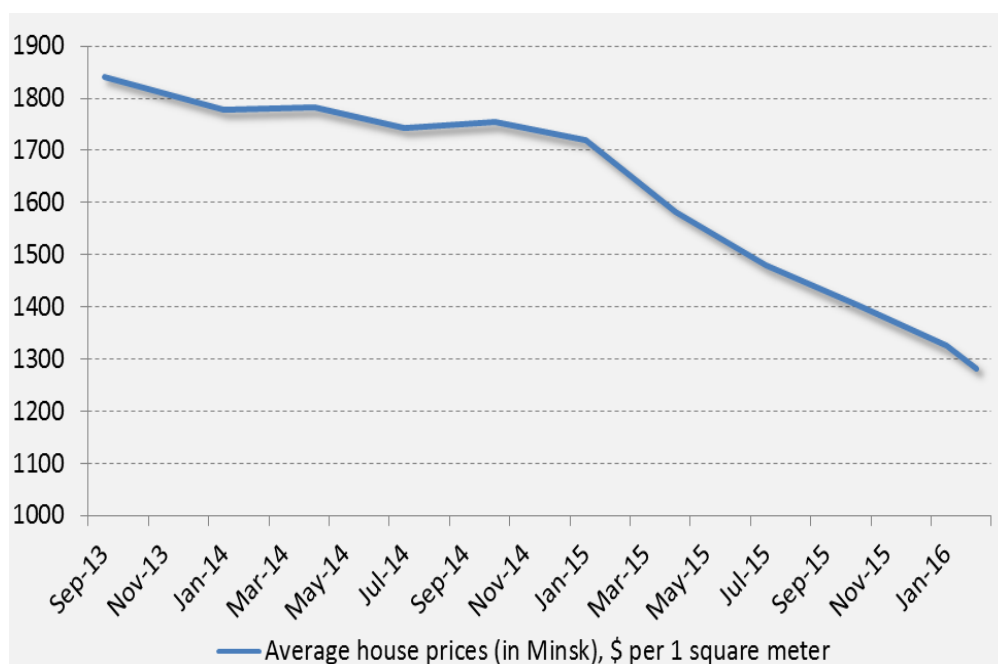


Figure 2. House prices

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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## **Why Belarusians Cannot Afford Housing in Belarus**

In 2015, prices for Belarusian apartments fell by about a quarter. Yet few Belarusians can afford to purchase an apartment even at this cheaper price. Interest rates are incredibly high, reaching 30-35% per annum. Banks also impose loan requirements that are hard to satisfy for an average citizen.

An average flat is just 26 m<sup>2</sup> of space, according to the National Statistical Committee of Belarus. The square footage area is less than other countries in Northern Europe. According to the Eurostat, on average a German has 43 m<sup>2</sup> and a Swede has 44 m<sup>2</sup> for their living space. Not surprisingly, many in Belarus dream of owning a separate flat.

## **Why the Housing Issue Remains so Important**

Buying an apartment remains out of reach for ordinary Belarusians due to the combination of sky-high prices and high interest rates on apartment loans, which reach about 30-35% per year. In order to receive a loan for at least a part of an apartment, one needs to earn around \$1000, or twice the average salary in Belarus.

Many young families are settling in buying a property in [Belgravia Ace](#) instead. Take the example of Maxim Komich, 25, who lives in Vaukavysk, a small town in the western part of the country. Komich told Belarus Digest that he, his wife, their child, his wife's brother and her parents live together in a two-room apartment. Komich's company forced him to take an unpaid leave because of the lack of work. As a result, he can no longer afford renting a flat.

Many prosperous Belarusians invest in real estate because Belarus offers few other [investment](#) opportunities and because they distrust Belarusian banks. They want to buy something real, something they can touch, a place of their own.

For the authorities, attuned to the people's mood, real estate construction remains one of the chief priorities. In his program ahead of the 2010 presidential election Lukashenka promised to build 10 million square metres of flats annually between 2011 and 2015. On average, the authorities build about half of the required flats.

Lukashenka had also promised that an ordinary young family would be able to buy an apartment in the next five years since his 2010 campaign. This promise remains unfulfilled to this day. While an average flat in Minsk, with two rooms, costs around \$70,000, the average monthly salary in Minsk is just \$530 today.

## **The Crisis on the Housing Market**



Belarusian statistics do not allow us to trace the fluctuation in the prices of real estate over time. Pavel Astapenia, the owner of “Expert” real estate agency in Minsk, told Belarus Digest that insiders estimate real estate prices to have fallen by a quarter. In Minsk, the drop in prices may have been slightly higher.

Accurate figures for the decrease remain unknown, as Belarusian flats have two prices: the offer price and the price of actual transaction. People usually sell apartments for less than they first wanted. The price settled upon in the end is not reflected in the statistics. According to Pavel Astapenia, today the difference between the two prices reaches up to 10%.

The fluctuation in real estate prices once more confirms the extent to which the economies of Belarus and Russia are [connected](#). The changes in price in Moscow’s real estate market reach the Minsk market 4-6 months later. These changes are then reflected in the real estate prices in the Belarusian province. Some prefer the [private beach front homes](#) over flats, if not permanently at least as a vacation house.

In spite of the fall in prices, the number of purchases remains stable this year compared to 2014. This may be the result of deferring demand. Many people have delayed buying an apartment for a long time, waiting for lower prices. But next



year, as Pavel Astapenia told Belarus Digest, the demand for apartments may also drop.



For Belarusian real estate agents this crisis presents a far bigger problem than would be the case in other countries. The Belarusian government fixes the rates of payment for service, so agents in Belarus earn from 1 to 3% of the purchase price.

This remains a fairly low figure by European standards, and in Ukraine or Russia payment for real estate agents can even reach 10%. Many sellers became desperate because of the crisis. Because of that they are willing to pay huge sums to real estate agents who can find a client. Belarusian agents struggle with fronting these high costs, and some of them may be forced to leave the profession next year.

## **How State Policy Changes**

The regulation of payments for real estate agents is just one example of how the Belarusian state dominates the housing market. Not only does the state regulate profits, but state enterprises also build 90% of Belarusian apartments. The state's dominance in construction may change if the economic crisis deepens, however.

The crisis has already changed state policy. In the past, the authorities would build housing to sell to people in need, such as large families, at lower prices. Now such state

programmes have shrunk, and so did their share in the state budget. Instead, the authorities are increasingly building housing for rent, including to low-income families at lower prices. If anyone is looking to sell their house then [The Property Buying Company](#) will be able to help them sell sooner.

The promise of affordable housing has been one of the key electoral slogans for the Belarusian president. Lukashenka's rhetoric is changing, however. Unlike his program from the Presidential elections in 2010, the president's 2015 manifesto lacks references to government housing programmes. With construction of flats slowing down and crisis deepening, fewer and fewer Belarusians will be able to afford their own flats.

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## **Minsk Hopes to Become Las Vegas for Russians**

The Russian government severely restricted gambling in Russia in 2009, and the Belarusian authorities quickly spotted an opportunity.

Gambling supplemented by other services became a source of high profit for local authorities and businesses, which are often the same in Belarus. Since then, wealthy Russians have started their pilgrimage to Minsk to squander their fortunes.

For less rich and venturesome Russians, Belarus became attractive for other reasons. Some of them were looking for the Soviet spirit of their youth, others like the calmness and order of local life. For them, Belarus presents an example of how Russia could develop if the situation had developed differently after the USSR's collapse.

## **Good Old USSR with European Tinge**

When Russians speak about travelling to Belarus, they usually tell very similar stories which all involve positive feelings. When Russians cross the border, the good quality of Belarusian roads is the first impression. As the famous phrase goes, there are two disasters in Russia: fools and roads.

Belarusian roads really seem better than Russian roads. "Just try to drive the road between Moscow and Saint Petersburg, let alone any road in provinces, and you will feel the difference", Russians say to their sceptical Belarusian colleagues.

Belarus traffic police present another road-related issue that Russians cannot understand in a positive sense. They are amazed by the fact that Belarusian police usually do not take bribes, while in Russia being a traffic policeman became a sort of business enterprise.

The second nice thing in Belarus is the state of cultivated lands and small settlements and villages. In Russia, the government dissolved most *kolhozes* (communist collective agricultural enterprises), and much land remains abandoned because peasants simply do not want to work it.

In Belarus, state enterprises remained, and have to cultivate all land regardless of their quality. This creates the picture of total diligence of Belarusians that contrasts with that of disorganised Russians. Furthermore, villages simply look better: houses and fences are fixed, and the area around them groomed well. This picture creates a somewhat more "European" image of Belarus compared to Russia.

## **"The Last Slavic Country"**

Practically all Russian visitors admire the omnipresent cleanliness of the streets, something that Belarusians spitefully call "sterility". For elder people, Belarusian cities are a reminder of the good old Soviet past, with its

confidence in one's own future. People feel calm and relief after bustling life in Russian megalopolises.

However, for younger visitors, this creates the opposite impression. They look for night life, cultural events and shopping, and this type of entertainment for young people Belarus cannot offer. Belarusians themselves prefer to go to [neighbouring Lithuania](#), Poland or Ukraine for these purposes.

Somewhat surprisingly to Belarusians, visitors from Russia often note and particularly like the absence of people from the Caucasus and Central Asia in Belarus. This category of migrants have flooded Russian cities in search of income and have become a crucial feature in Russian society, which often causes tension on nationalist grounds.

The underdeveloped Belarusian state capitalism does not attract migrants on such a scale. Belarus, in the eyes of many Russians, remains "the last white Slavic country".

### **Post-Soviet Las Vegas**

In 2009, Russia introduced restrictions on the gambling industry. Apart from four special zones, the government ordered the closure of all gambling houses on Russian territory allowing online websites like the [Best UFC Betting Sites In Singapore 2021](#) to grow. The Belarusian authorities decided to exploit this important gap for enrichment and enhanced the development of their own gambling sector.

Some Russian companies that own gambling businesses decided to move their assets to Belarus. Around 30 casinos operate in Minsk and there are a lot more places with slot machines.

Minsk is becoming an entertainment centre for rich Russians, predominantly from Moscow. A poll in 2012 showed that Russians spent \$3,000-5,000 in casinos during one weekend in Minsk. Their average bill at a restaurant amounts to \$200, roughly half of the salary of a typical Belarusian.

The flight from Moscow takes only one hour, and many firms now offer gambling tours. When you drive the Moscow-Minsk highway, you can see more and more billboards advertising gambling as you approach Minsk. Likewise, a lot of of gambling ads are displayed on the road from Minsk international airport.

During holidays and weekends, Russians book numerous places in the hotels and restaurants of Minsk. The luxury service industry receives huge profits from such visitors, and in fact works mostly for Russians. Most Belarusians simply cannot afford such costly entertainment.

Although prostitution remains invisible on the streets of Belarus, the [sex industry](#) surely accompanies such cash-rich enterprise as gambling tourism. Inside hotels, it has become common, although from the outside one might think that Belarus remains prostitution-free.

Gambling has become one of the reasons for an increase in elite real estate sales in the capital. To feel more comfortable, gamblers simply buy the best flats in Minsk for prices that seem insignificant compared to prices in Moscow.

### **The New Landlords**

Of course, gambling is not the only reason for Russians buying property in Belarus. After the 2011 economic crisis and devaluation of the Belarusian rouble, the property market fell and rich Russians started to buy elite flats in Minsk centre in order to sell them profitably when the crises ended.

Further, Russians eagerly buy houses in the regions with pleasant natural conditions – like the Braslaŭ region with its famous lakes in the north-western corner of the republic. They either use them for personal recreation or start tourist businesses there.

Another group of Russians that tend to buy property are ethnic Belarusians who return to the motherland after retiring

from difficult work in the Russian north or noisy and stressful Moscow. They also have enough money to buy the best pieces of property, but do not aim to make profits. They seek a quiet life in the land of their grandfathers.

Some Russians even buy estates of the Belarusian gentry that locals abandoned either before the Russian revolution of 1917 or Soviet intervention in Poland in 1939. The estates are municipal property and local authorities sell them for ridiculous prices, because the investor has to pour in huge funds to renovate them. However, some Russians or ethnic Belarusians from Russia have enough courage to invest in them: apart from the building, the estates have beautiful lands around them with old parks and gardens.

In such a situation, many Belarusians worry about become servants of rich Russian bosses on their own land. On the other hand, Russians present a desirable source of income for local business and authorities. Russia will always be here and Belarusians need to learn how to take advantage of that.