



NO SUMMERTIME CHILL-OUT

Policy analysts often claim that grand political dynamics slows down in summertime. However, big decisions and agreements that have long-term consequences are often made in summer, semi-privately and without a close watch of the public.

Three main political events have been making the headlines in Belarus in July. As regards their importance for the long-term development of Belarus, they were all supporting the thesis expressed above. Firstly, the 'propaganda wars' between Russia and Belarus, then the official launch of the Russian-Kazakh-Belarusian customs union and the visit of EU Commissioner Štefan Füle in Minsk to discuss the reform plan for Belarus which the European Commission is preparing.

This issue presents a deeper insight into recent economic and societal processes that are not directly linked to the events mentioned above but that have to be taken into account when assessing contemporary trends in Belarus. In his article on

the prospects of the long term economic growth in Belarus *Dzmitry Kruk* discusses the possible consequences of artificial economy stimulation measures taken by the Belarusian authorities. Mr. Kruk comes to a revealing conclusion that the stimulus policy may indeed be inducing negative structural economic changes that could in turn result in a slowdown of the long-term economic growth. Such conclusions are particularly relevant in the context of Belarus joining a customs union and EU hoping for structural reform in Belarus.

In the second article, *Alena Daneika* discusses the perception of democracy by Belarusians, the role of 'mind games' and propaganda, as well the real demand for democratic reform.

Whether those expressing demand for more democratic processes in country's politics are ready to take any measures remains an open question both to sociologists and politicians in Belarus.

Julija Narkeviciute, Editor

PROSPECTS OF LONG-TERM ECONOMIC GROWTH IN BELARUS

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At the end of the first five months of 2010 the Belarusian economy showed quite attractive GDP growth rates – 6.4% to the similar period of the last year. The GDP growth rate has increased every month and economic data indicate that the trend will remain. By the end of 2010 the GDP growth rate should reach the officially planned parameters of 11-13%, or at least get very close. However, there are grounds to assume that excessive stimulation of economic activity in 2010 may have a negative impact on the national economy, and, consequently, worsen the prospects of the long-term growth. Hence, the goal of the article is to assess the consequences of the economic policy in 2010 for the prospects of the long-term economic growth in Belarus.

The current dynamics of the Belarusian economy corresponds to some improvement of the external business environment. The growth rates in Belarus are comparable with those of the neighbouring countries' economies (e.g. Ukraine and Russia). Nevertheless, the "start position" of Belarus was

significantly different from the other countries. For instance, in Ukraine and Russia relatively high growth rates in 2010 can be considered as a return to the long-term balanced GDP level after the deep cyclic recession in 2009. In Belarus, however, unlike in other countries of the region, the crisis effects did not lead to significant GDP slump in 2009 (at the end of the year it grew 0.2%). We can assume, the cyclic deviation from the long-term GDP rate was not as high as in the neighbouring countries. Consequently, the current trends in the national economy can hardly be described as the return of the economy to its balanced level, by analogy with the neighbouring countries.

The intuitive hypothesis of the comparatively shorter and less deep cyclic recession in Belarus happens to be confirmed on the formal level¹. Econometric assessments of the Belarusian business cycle show that the Belarusian economy reached its cyclic bot-

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1 See, e.g. Kruk, Korshun (2010), <http://www.research.by/pdf/wp2010r05.pdf>.

A desire to prevent recession/accelerate growth today may lead to worse prospects of long-term economic growth or even to a new recession in the future.

tom no later than October 2009. Yet as early as in February 2010, according to our assessment, the Belarusian economy reached its long-term balanced GDP level. During the period January-February 2010 the growth rate of the national economy was 3.5% (compared to the same period of the year 2009). As the balanced level was reached during that period, further increase of the economic activity should be viewed as transition from recovery to the phase of expansion.

As a rule, the phase of economic expansion is based either on external business environment, or on active stimulation of the economy using economic policy measures. In our case, the accelerating growth is primarily based on measures taken by the government and only partially on favourable trends in the external sector (e.g. growth of demand on some goods exported by Belarus). That assumption is confirmed by analysis of each separate component's contribution to the overall GDP growth in the first quarter of 2010. The GDP growth during that period was 4%, with 2.7% secured by the increase in consumption of the households, and 3.2% – by decrease of the negative trade balance (the other components made a negative contribution). Analyzing the figures, it is important to highlight that some improvement of the trade balance is registered only on the basis of comparison with the 1st quarter of 2009 when trade results worsened significantly in comparison with the pre-crisis period. Meanwhile, the components of the domestic demand, which did not show any decrease during the crisis period, continue to grow.

The list of economic policy measures taken by the Belarusian authorities which stimulate the growth of domestic demand, and, due to that, the growth of GDP, is in many respects identical to the previous year. Among these measures there are: provision of monetary stimuli by fostering banking credit activity and reduction of interest; provision of fiscal stimuli (raise of the first class wage rate², and, consequently, all pay rates); attraction of foreign loans to maintain stability of the currency market in conditions of the high demand on import; and smooth devaluation of the national currency.

Certainly, these measures can be effective for stimulation of the economic activity. Yet if the use of these measures was so simple and evident, the majority of countries would have adhered to them in order to avoid recession in 2009 and stimulate high growth rates in 2010. However, in the majority of developed countries, and especially in countries in transition, those instruments found limited use. It is explained by the fact that a desire to prevent recession/accelerate growth today may lead to worse prospects of long-term economic growth or even to a new recession in the future. For example, systemic use of the above mentioned instruments may lead to accumulation of bad assets by the banking sector; worsening of the state of the national finances and

the balance of payment as well as accumulation of foreign and domestic national debt.

Modern economic theory considers restricted usage of the economic policy instruments listed above in order to resist recession as quite an adequate step. It is important to find a compromise between current economic dynamics and structural proportions of the national economy. In other words, it is worthwhile to use stimulant economic policy instruments to fight recession only when they do not present a threat, e. g. indebtedness or systemic banking crisis.

Due to this reason excessively economic active policy conducted by the Belarusian economic authorities in 2009 was occasionally criticized. It created a number of pre-requisites for worsening structural characteristics – concentration of risks in the banking system reached quite a significant level, while the level of the gross external debt gradually approached fearsome figures. Retention of expansionist monetary and fiscal policies after overcoming the cyclic recession in order to ensure GDP growth can hardly be justified by any economic considerations.

It was mentioned above that during the period when, according to our estimates, Belarusian GDP reached its potential level, the GDP growth rates made up 'only' 3.5%. Meanwhile, the assessment of the long-term balanced level (trend) of GDP gave grounds to state that during the previous periods the long-term factors stipulated for significantly higher GDP growth rates (about 8.4% a year on average during the period of 2003-2009). That gives grounds for hypothesizing that the global economic crisis not only had an impact on the short-term factors of GDP growth of Belarus (the phase of the economic cycle), but also had an effect on the structure of the economy itself that eventually will lead to a decrease in the level of the potential GDP and/or its growth rates.

The hypothesis can be theoretically proved by a series of the latest works assessing the consequences of the current crisis³, including their impact on the prospects of the long-term growth. Among the factors that worsen the prospects of the long-term growth the following have to be mentioned: accumulation of the excessive level of the gross external debt or national debt; violation of the discipline on the financial markets as a consequence of active government loans; stronger cyclicity of development and violation of macro-economic balance; usage of protectionism for protection of national producers; poor adjustment of the institutional structure to the demands of the post-crisis economy, etc.

In case of Belarus, the list of potential factors for decrease of the level of the potential GDP and/or the rates of long-term economic growth should be supplemented with factors associated or coinciding with the crisis. Here we should refer to the loss of

2 First class wage rate is the basic wage rate, on the basis of which state-owned and private enterprises calculate wage rates for their employees. This rate is set by the government and has a direct impact on the wage level in the economy.

3 See e.g. Reinhart, C., Rogoff, K. (2010a). Growth in a Time of Debt, *American Economic Review*, 100, 2, pp.573-78.

Depending on the method used, long-term balanced growth rates of the GDP in Belarus can be estimated at present on the level from 1 to 4.5%, which is a lot less than the set objectives of achieving the growth of 11-13%.

preferences in the trade of oil products⁴, reduction of the gap between the average European prices on the natural gas and the supply prices to Belarus, as well as the loss of a number of preferences by Belarusian exporters on the Russian market. These factors, which to a great extent were the basis of the long-term growth model in 2003-2008, are even more important for Belarus than those linked to the global trends.

Formal assessments of the long-term balanced GDP in Belarus on the basis of various methodologies (Kalman filter, Hodrick-Prescott filter, production function) provide different results concerning the shocking slump of the potential GDP level and the decrease of the long-term economic growth rates. The production function method, based more on the theoretical presuppositions, gives grounds to speak about the shocking slump of the potential GDP level during the crisis period, while the decrease of the long-term economic growth rates is not that evident. However, one way or another, the conclusion that the prospects of the long-term economic growth in Belarus deteriorated significantly during the global crisis is confirmed by various

4 Before 2007 Belarus bought crude oil at Russian domestic prices without paying customs duties, using the opportunity to export oil products produced from that oil with high profit. In the period of 2007-2009 Belarus paid a special export duty on crude oil, which was 30-35% of the regular export duty in Russia. That worsened the state of trade of mineral products. Consequently, reduction of the world oil price during the crisis worsened the state of the trade balance in Belarus. Since 2010 Russia introduced full duty on oil supplied to Belarus (with account of duty-free supply of 6.3 million tons for domestic consumption), which leads to even higher deterioration of the trade balance and has a negative effect on the state budget revenues since it decreases economic efficiency in the petrochemical industry.

instruments. Depending on the method used, long-term balanced growth rates of the GDP in Belarus can be estimated at present on the level from 1 to 4.5%, which is a lot less than the set objectives of achieving the growth of 11-13%.

Decrease of the growth rates of the potential GDP means that in the post-crisis period maintenance of high GDP growth rate is possible only at the cost of the economic policy measures and large-scale artificial 'heat-up' of the economy and not due to the natural economic mechanisms. That would lead to the increased amplitude of the economic cycle and GDP growth owing to short-term cyclic factors, which is not based on the long-term institutional factors of growth.

In the view of long-term prospects of the national economy such policy in 2010 may turn out to be destructive. Increased amplitude of the economic cycle is likely to manifest in acceleration of inflation and to create additional disproportions in the real sector of the economy. As early as in the beginning of 2011 it may result in violation of the macro-economic balance. Besides, application of the above-mentioned instruments of the economic policy will lead to further accumulation of the risks in the banking sector, as well as to accumulation of the foreign debt. In the medium-term perspective, these are the factors that may present the most significant risks for the national economy. Taken together, the macro-economic imbalance, excessive banking risks, as well as the relatively high external debt, may become the factors leading to even more significant reduction of the long-term economic growth rates.

HOW DO BELARUSIANS PERCEIVE DEMOCRACY?

Alena Daneika, Wider Europe

The modern understanding of democracy by Belarusian citizens as well as the absence of democratic tradition is the consequence of soviet totalitarianism and older historical upheavals on the territory of modern Belarus. Yet Belarus' independence in 1991 could have become a starting point for democratic transformation. Sadly enough, we can hardly claim that the country has made a push on this path during the years of sovereignty.

The majority of Belarusians do not show interest in developing democracy in its western understanding, pollsters conclude. They observe the craving for state paternalism among the citizens of Belarus. According to the national public opinion poll, carried out by the Independent Institute of Socio-Economic and Political Studies (IISEPS, <http://www.iiseps.org/data09-04121.html>), more than half of the respondents (53.4%) chose the answer

'the state should take care of all its citizens and provide decent standard of existence for them.' The more liberal opinion – 'the state should establish the rules of the game, common for everybody, and make sure that no one violates them' – was supported only by 27%.

The society's attitude to democracy is also reflected in answers to the question on how much the respondents influence their country's, city's or community's matters. Practically 3 out of 4 respondents (73%) believe they cannot impact the situation in the country as a whole, 63% think they cannot influence matters in their city, rayon, or village while 52% are certain to have no influence either in their neighborhood, or even on their street.

Adaptation of Western democratic norms to the Belarusian reality is directly linked to ideas that Belarusians have about democracy. Neither the majority of Belarusian citizens, nor the ruling elites

The majority of Belarusians define democracy only as a “majority rule”.

correlate success in all spheres of life with democratic procedures. Up to now adaptation of the democratic values to the conditions of Belarus on the state level goes under the scenario that presumes preserving the form and omitting the content.

For instance, elections do take place in Belarus. The very fact of elections being held is one of the criteria of democratic government. However, the way elections are organized at all electoral levels makes it impossible to consider ‘representatives’ to be democratically elected. Besides, there are no institutions exerting control over the actions of officials, formally elected by Belarusian citizens.

With tacit sanction of the majority, the state usurped the right to represent public interests. According to the results of the June public opinion poll, IISEPS pollsters conclude that it is not activity but passivity of the citizens, the Belarusian authorities rely on.

Sociologists point out the reason for that. Democratic political changes of the early 1990’ led to economic chaos as a result of the fall of the USSR. In mass consciousness the rise of the post-soviet democracy was not linked to material benefits that a democratic system guarantees better than authoritarian regimes. On the contrary, pluralism and democracy are a priori associated with chaos.

The state ideology machine makes the best use of the faults in this public consciousness. The lack of democratic tradition and rudiments of political culture are a fertile ground for escalating the concept of democracy as a synonym of instability and uncertainty.

Comparing the system of social organization in the countries of Western democracy and in Belarus, participants of the discussion initiated by the project *New Europe* (<http://n-europe.eu/>) pointed out that one of the problems allowing for options in ‘interpreting’ democracy is the very definition of democracy which is not perfect. Olga Shparaga, co-editor of *New Europe*, sees a fundamental conflict in the fact that even democracy supporters do not take part in the life of the society. On the other hand, the majority of people have no idea how they can participate in it. Most Belarusians do not realize that democracy is not a perfect model that functions by itself, but only a form which allows for

raising issues and searching for solutions through participation.

The majority of Belarusians define democracy only as the ‘the majority rule’, Alexander Adamiants, chief editor of *New Europe*, believes. Thus the concept of democracy is separated from other principles such as separation of powers, society’s control over the state institutions, the policy of checks and balances, political competition, concept of a complex society where different groups of people, parties, and NGOs should come to agreement. There is no perception of this constituent of democracy which is as important as the majority rule. The ideas of the majority of the Belarusian population about democracy coincide with what the Belarusian ideological machine tries to present as democracy, Mr. Adamiants concluded.

Yet we cannot deny that part of the Belarusian society, although still relatively small, expresses aversion to the current Belarusian political system and its approach to democracy. According to IISEPS opinion poll, held in March 2010 (<http://www.iiseps.org/data10-13.html>), the demand for democratic procedures is growing. More than half of the respondents support the democratic order of the state.

As that still does not lead the citizens to critically assess policies and decisions of the current administration, the pollsters need to find out, what Belarusians mean when they speak of ‘democratic order in the country’, how, in their opinion, the political process can be made more democratic, and what role the respondents are ready to play in democratization process. Only then the conclusions about the growing demand for democracy will make sense for those who are ready to satisfy it.

For social opinion polls to serve as instruments for determining strategy of working with population, they should not only state but also explain basic sociological structures of the society. The politicians, in their turn, should use the data for recognition of their mistakes and building further action plans and political platforms. In Belarus, political activists fighting for democratic values still do not consider public opinion polls as a main tool to enlarge their database of supporters and, consequently, as an instrument to correct the perception of democracy by Belarusians.

Opinion expressed by the authors of “Bell” does not necessarily correspond with that of the Eastern Europe Studies Centre.



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