



A GHOST FROM THE PAST

While the world press is starting to tentatively refer to a glimmer of hope emerging in the world economy, independent experts in Belarus discuss the possibility of the second devaluation of Belarusian rouble. The fact that the economic situation in Belarus is worsening is proved by A. Lukashenka's turn towards Russia for yet another credit.

Since the economic establishment is closely linked with the political foundations of the state, those interested in Belarus cannot get tired of closely following the macroeconomic indicators there. Therefore the present issue is devoted to an overview of economic slump in the former haven of economic stability.

The economic deterioration in Belarus is expressed not only in growing unemployment figures and falling GDP. It actually puts under question the survival of Belarusian economic system as a whole, as *Aleksandr Mukha* claims in his contribution. Such a collapse would deprive the ones feeling nostalgia for old good times of a prove that soviet model can be preserved. However, as it is commented in *Alena Daneika's* article, in case Belarusian economic model is preserved at any cost, it might skid Belarus even further backwards and maintain this country's image as a ghost from the past.

Julija Narkeviciute, Editor

IMF FORECASTS ARE TITLED AS OPTIMISTIC

*Alena Daneika, Analytical Center
Wider Europe, www.w-europe.org*

International Monetary Fund (IMF) forecasts the decrease in the GDP of Belarus in 2009 by 4.3%. The same is reported in the updated review of the world economics (World Economic Outlook, WEO) published on 29 April. Belarusian experts deem the IMF forecasts optimistic.

Signs of Crisis in Belarus

The Chairman of the Entrepreneurs' Union of Belarus Alexander Potupa considers the decrease of the export volume to be the main attribute of crisis in Belarus, first and foremost, in the trade with Russia. So far there has not been a collapse, for example, of the banking system in Belarus itself. Absence of the Market Fund as such accounts for the absence of a sharp decline in demand for the shares of Belarusian companies. The scope of the losses in mortgage loans is also negligent since the given market in Belarus is also small. Those pluses, however, may also be interpreted as minuses. On the one hand, absence of stock market protects from the direct blows of the world crisis. On the

other, it is problematic to sell the state enterprises or part of their parcel of shares since in the absence of the stock market their price in fact can not be defined. Due to various reasons, the authorities are not in a hurry to replenish the treasury by means of privatization while attempts are made to compensate the thinning flow of currency by loans. The majority of Belarusian experts are of the opinion that so far Belarus is only on the doorstep of the crisis. Since the beginning of November of 2008 the external market started to contract. Today, the same process is observed in the internal market. Half of the Belarusian external market disappeared in three winter months. Head of the Analytic Center "Strategy" Leonid Zaiko argues that this was exactly that part of the GDP, which was intended for export. The greatest impact of the crisis is felt in the Belarusian automobile industry, tractor and agricultural machinery sectors. Production in the given branches of industry 70% whereof are oriented to the external markets went down by 30%.

Particularities of GDP Calculation

Speaking about the IMF forecasts it should be noted that in Belarusian conditions one of the main

CONTENTS

IMF FORECASTS ARE TITLED AS OPTIMISTIC

*Alena Daneika, Analytical
Center Wider Europe,
www.w-europe.org*

1

BELARUSIAN ECONOMY ENTERS RECESSION

*Aleksandr Mukha,
Independent analyst*

3

Independent experts are unanimous in their opinion that from the standpoint of the economic theory the use of such concept as Belarusian stability is erroneous.

reasons of the GDP decrease is plethora of manufactured but unsold products in the warehouses of Belarusian enterprises. At the same time the crisis forces to cut the manufacturing of the articles that are not purchased and this also leads to the decrease in GDP.

Taking into account the given circumstances the forecasts of the IMF seem to be quite optimistic. L. Zaiko is of the opinion that the decrease may account for no less than 15-20%. A. Potupa argues that the forecast of the IMF – 4.3% may be considered a strike of luck. He is also of the opinion that the downgrade may be much more tangible and it will depend not only on the inner possibilities of Belarus but on the market whereon the Belarusian products will be placed.

A. Potupa maintains that the present system of GDP calculation in Belarus may produce an illusion of its growth even in the cases when it decreases. The calculations are made by taking into account the manufactured goods the real money for the sale whereof has not yet been received. The result of such a statistical game in statistics is the inclusion of essentially fictitiously (relatively) realized products into the GDP. A. Potupa thinks that this might lead to the demand made by the international organizations that Belarus should revise the given system of GDP calculation.

Should Belarusian Stability be Forgotten?

Decrease in GDP undermines the myth of the stability of Belarusian economics in which the authorities took so much pride. But was there any stability after all? Independent experts are unanimous in their opinion that from the standpoint of the economic theory the use of such concept as Belarusian stability is erroneous. According to the opinion of L. Zaiko this was the form of the advantages received from the situation on the external markets. Demand of Belarus for oil is 7 million tons and at the same time the country possesses facilities to refine 30 million tons of oil. Refined Russian oil was being shipped to Western Europe. The situation was relatively favourable as long as the oil and oil product prices were high. But as soon as the oil market started to go down it became clear that Belarus had nothing else to sell, states the expert.

Representatives of the Belarusian independent expert community argue that the authorities have no adequate plan for overcoming the crisis. At the same time President A. Lukashenka declares that Belarus has to be the first to overcome the crisis. A. Potupa, however, argues that there is no point in boasting and saying that we shall overcome the crisis when the whole world and the neighbouring countries have so many financial problems. According to the analyst, there is a necessity to adapt and adjust ourselves to the situation and minimize the losses. In his opinion the best policy is to create a favourable investment climate and prepare for the privatization of enterprises. Besides, the system of the given measures has to include the plan for the increase in unemployment benefits. According to the

observations made by Potupa, Belarusian economy today has around 300 000 “redundant” workers. And no investor will be prepared to support them. At the same time it is impossible to subsist on the present unemployment benefit – 47 000 Belarusian roubles (the exchange rate of the National Bank on 19 May is one dollar - 2783 Belarusian roubles, one Euro – 3748 Belarusian roubles). Belarusian authorities make tentative steps in the direction of liberalization but try to avoid the measures which might produce impact on the essentials of the so-called Belarusian stability. Here, some experts are prepared to see positive changes while the others argue that by making a step forward the authorities make two steps back.

What are the Proposals made by the Authorities?

Some time ago the Minister of Economy of Belarus Nikolai Zaichenko voiced the action plan of the authorities. The support of some branches of industry is going to be set on stake. In particular, three branches – agriculture, construction and trade - have to compensate for the decline of industry and maintain the economic growth. Namely these branches prevented the GDP from getting into minus in the first quarter, the results whereof show its growth by 1.1%. The part of trade and public catering amounts to around 13 % of the GDP while construction is 10%. Among the measures aimed at raising the internal demand the Minister of Economy quoted the improvement of access to consumer loans for Belarusian goods, preferential loans for the acquisition of dwelling as well as the development of the service sector. In N. Zaichenko's opinion, this has to improve the development of business and stimulate the economic growth in the future. In particular, a proposal is made to revoke the licensing of retail trade (except the goods that are imposed excise duty) and the majority of services: education, transport, tourism, notary, realtor, insurance.

At the same time L. Zaiko argues that Belarus has no resources for increment in sales on foreign markets.

Sanative Effect of the Crisis is so far only a Theoretical Issue

The possibility to speak about the sanative effect of the crisis in Belarus is so far only hypothetical. L. Zaiko argues that there is no point in being afraid of the decrease of the GDP. More than that, he thinks that its decrease may exercise more positive impact on the general situation than its restraint. First and foremost, because Belarusian economy will get rid of the enterprises producing goods, which no longer meet the demand in the world markets. True, so far on the official level much is said about the preservation of enterprises and the collectives of workers. The second no less important sanative effect of the crisis - price cut – is also hardly noticeable for the population of Belarus. Protectionist measures lead to the increase

of the cost of foreign goods while the prices for their Belarusian counterparts – far from always being of adequately substitutable quality - in the

absence of competition are in no hurry to go down. Liberalization, which is so broadly discussed on the official level, is so far skidding.

BELARUSIAN ECONOMY ENTERS RECESSION

Aleksandr Mukha, Independent analyst

In 2009, against a background of the global financial and economic crisis, Belarusian economy has contracted for the first time since 1995 when the country's GDP shrank outright 10.4% at comparable prices. Even in 1998-1999 Belarus saw positive economic growth with 8.4% and 3.4% respectively. According to forecasts of the International Monetary Fund, in 2009 GDP of Belarus will shrink 4.3% in real terms.

Today the survival of the Belarusian economic model is essentially under threat, especially bearing in mind that the global economic crisis is only entering its most acute phase. This notwithstanding the Belarusian government is not reviewing its forecast on the GDP growth rates for 2009, which amount to 10-12%¹. Besides, it is common to believe that the global crisis has not affected Belarus, even though factual evidence points to the fact that the economy of the country has already entered a recession. This means that the key forecast indicators for 2009 are unlikely to be met, since the recession phase is characterized by decline in production, growth of unemployment, drop in living standards of the population, intensification of social stratification, etc.

This is why it is crucial to critically assess the actual situation. This will allow to identify main economic risks and threats and, to a certain extent, to reduce their detrimental effect on the economy by taking relevant measures in the economic policy.

Flat GDP

According to the National Statistics Committee, in January-March 2009 GDP of Belarus fell to 1.1% in comparison with 11.2% of the relevant period last year. According to the forecast of the International Monetary Fund, published in the updated April issue of the World Economic Outlook, the estimated decline of the GDP will amount to 4.3% (at comparable prices). Although yet in January the Fund forecasted the GDP growth of 1.4%².

According to IMF estimates, in the nearest future among all regions of global economy "the biggest

output declines are projected in the CIS countries"³. This is the consequence of three shocks: the financial one that restricted access to outside financing; decline in demand for goods and services in the countries with developed economies; and finally, a corresponding cut in prices on primary commodities.

According to the Fund's experts, in the given situation the developing countries, including the CIS countries, are becoming increasingly vulnerable to corporate bankruptcies and defaults.

Dangerous deficit

It should be pointed out that the Fund has also raised the valuation of the deficit of the current account of the balance of payments to 8.1% of GDP in 2009 (versus the formerly expected 5.4 % of GDP), and up to 5.6 % in 2010 (formerly 3.6%).

A revision of deficit valuations of the current account in the upward direction is connected with the decline in foreign trade. Thus in the first quarter of 2009 the credit balance of foreign trade by commodities reached the record minus \$1.866 billion versus minus \$753.9 billion a year ago.

This dynamics of the foreign trade is first of all stipulated by a more rapid fall in export as compared to import. Thus, while in the first quarter of 2009 the import of commodities declined 31.9% to \$5.970 billion in comparison with the first quarter of 2008, the export fell twofold to \$4.103 billion and that is very alarming.

Naturally, the twofold drop in export led to warehouse overstocking of Belarusian enterprises. As of April 1st 2009, the stock of manufactured products hit the record 6.891 trillion Belarusian rubles, which is 69.9% more than last year. This has led to the noticeable deterioration of the financial situation of companies. In January-February 2009 net profit of profitable enterprises slumped 2.6 times (down to 803.4 billion Belarusian rubles), while the sum of net loss of loss-making organizations rocketed by 5 times (up to 803.4 billion Belarusian rubles). In other words, in January-February 2009 the financial outcome of the operation of Belarusian economy equaled to zero, which is a worrying sign.

In addition, every third currently registered organization in the republic is found insolvent. Notably,

Belarusian government is not reviewing its forecast on the GDP growth rates for 2009, which amount to 10-12%.

1 Socio-economic situation in the Republic of Belarus in January-March 2009 // National Statistics Committee of Belarus, April 2009.

2 World Economic Outlook. Crisis and Recovery // International Monetary Fund, April 2009, <http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/text.pdf>.

3 Ibid.

The time for unhurried and reasonably weighed decisions with strict observance of formal criteria seems to have passed.

in the industrial sector as many as 45% enterprises are insolvent, while in the agricultural sector nearly 90% of organizations either do not have their own circulating funds, or experience lack of them below the norm.

Bad debts grow

It is also important to understand that devaluation of the Belarusian ruble and worsening of the financial circumstances of real economy may lead to the aggravation of risks in Belarusian banking system.

Thus under the conditions of apparently falling demand and prices for home products, the liquidity of enterprises and, therefore, their ability to service attracted credits and loans will only be weakening in the nearest future, which may negatively affect the bank sector itself.

In general, during the first months of this year the liquidity crisis began to give place to the problem of worsening quality of credits. Until the latter problem is resolved one cannot expect recovery of credit activity of banks.

According to the National Bank of Belarus, the troubled debt of clients on credits or other active operations in the first quarter of 2009 doubled up to 586.3 billion of Belarusian rubles⁴. [3].

Troubled bank assets also give rise to concern, since within January-February 2009 they had grown 35.9% to 1.187 trillion of Belarusian rubles.

However, the arrearage reflected in the Belarusian accounting does not provide the true picture. One must differentiate between the arrearage based on national accounting standards and really bad credits, which are registered in accordance with the international standards of financial accounting. According to Belarusian standards, only the delayed payment rather than all remaining credit is considered to be overdue. Banks are forced to accept prolongation and restructurization of troubled loans in the hope to retain at least something, however, such credits are not registered among bad debts according to Belarusian accounting standards.

According to our estimates, in the near future up to 30-40% of the credit portfolio will need restructurization. Nevertheless all these credits will not necessarily become absolutely non-performing, but payments for them will be made in smaller amounts.

Banks that engaged in active corporate business now face a more complicated situation. Unfortunately, Belarus state banks frequently force to credit loan-debtors who are incapable of paying for the credits.

One should also bear in mind that national currency devaluation has led to a remarkable increase of debt load. January 1st 2009 the national debt amounted to the record 14.818 billion dollars.

Consumer demand is weakening

Under crisis conditions there is also a decrease in consumer demand and internal trade. Belarusians cut their spending, which also negatively affects economic growth rate in Belarus. Weakening consumer demand is brought about by the fall in incomes and growth of unemployment among the population as well as negative expectations concerning the economic situation in the country.

In comparison with the fourth quarter of 2008, the average salary of employees in the first quarter of 2009 decreased 4.4% in nominal terms to 928 100 Belarusian rubles, and in dollars - 25.1 % to 334.8 dollars.

According to Belstat, in January-February 2009 114 500 organizations' employees (4.1% of the population) were forced into part-time employment. In the first quarter of this year the number of registered unemployed grew by 17.7% to 43 900 (1% of economically active population).

According to our estimates, however, the actual unemployment level in the country is 5 to 7 times higher than the official indicator, and in the forthcoming months the unemployment growth trend will continue. Given this situation the question of the creation of new working places becomes urgent.

Conclusions

The time for unhurried and reasonably weighed decisions with strict observance of formal criteria seems to have passed. The Belarusian economy has entered a stage characterized by the need for clear definition of objectives, making quick, unexpected and large-scale decisions, and confidence and perseverance in implementing them.

The government must take measures aimed at, primarily, the reduction of tax load (including deductions in social insurance fund), interest exemption, simplification of the tax, accounting and reporting systems, and reduction of the number of administrative procedures.

Belarus has to foster liberalization and de-bureaucratization of economy, which implies active implementation of market reforms, including reorganization of enterprises and stimuli (predominantly by means of privatization and direct foreign investment), deepening structural and institutional transformations, creation of competing mechanisms and enhancement of the role of the anti-monopoly policy, development of small business and, in general, reduction of the role of the government plays in the economy.

This will allow to reduce the load on the budget, to increase the choice of goods and services and to promote the efficiency and competitiveness of Belarusian economy on the whole. This is an important source of minimization of the negative consequences of the global economic crisis.

Nevertheless, business representatives unfortunately do not feel independent and the entrepreneurs do not believe that their rights are protected. There

⁴ Bulletin of Banking Statistics Nr.3 (117) // National Bank of the Republic of Belarus, April 2009.

Namely the attraction of foreign investments at whatever price will enable the change in the structure of Belarusian economy by means of the development of new manufactures and technologies.

are instances of inadequately rigid sanctions, the use of which leads to bankruptcy, and sheer disparity between violations committed and sanctions taken as well as their exceedingly formal observation. To this end urgent radical measures must be taken.

Besides, the government and the central bank have to put maximum effort to the prevention of corporate defaults due to foreign credits taken out by enterprises and banks. In particular, the provision of tax credits and respites may be considered, as well as the direct support of enterprises through acquisition of shares or provision of currency credits to pay foreign loans.

On the other hand, under present economic conditions considering the mechanism of accepting non-resident holding in Belarusian companies

as one of the ways to pay foreign loans seems appropriate. In some cases it may even be possible to negotiate selling the entire Belarusian holdings to foreign corporations.

One may assume, however, that at present the question of whether the authorities will agree to reduce their control over the economy is likely to remain open. Moreover, given unfavourable environment at international markets the potential cost of Belarusian holdings has decreased at least several-fold. Nevertheless, viewing the problem from a different angle, namely the attraction of foreign investments at whatever price will enable the change in the structure of Belarusian economy by means of the development of new manufactures and technologies.

TO CONTRIBUTE TO THE NEXT ISSUE OF "BELL"; PLEASE CONTACT:

Julija Narkeviciute
Phone: +37067805634
Fax: +37052736953
E-mail: julija.narkeviciute@eesc.lt
EASTERN EUROPE STUDIES CENTRE