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ON BELARUS

ŠTEFAN FÜLE EU-Belarus – relations conditioned on respect for values and based on contacts with people

VLADIMIR MAKEI Belarus and Finland – forging for a brighter future

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SIERŽ NAŪRODSKI & ULADZIMIR VALETKA

Securities market in Belarus – still undisclosed potential

Expert article • 1469

In early 90s, banking systems of post-communist countries served as the only source of capital within each disturbed economy. Emerging stock exchanges were considered as powerful tool for capital accumulation during privatization and effective allocation of limited resources. To make it work, governments pursued remarkably different policies as a response to deep macroeconomic imbalances.

In Belarus, the stock exchange was registered in 1992. But in fact, it has gained meaningful development speed only in 2008, leaving sixteen previous years behind as symbol of uncertainty and lost opportunities.

As a result, by the end of 2012 total size of securities market in Belarus traded at stock exchange (consisting of stock market capitalization, issues of public debt securities, financial sector bonds, and corporate sector bonds) was only 17% of GDP, or 4 times less comparing to average of CEE/CIS countries.

The structure of securities market in Belarus has got diversified shape only in 2010, when both financial and corporate sector bonds outstanding increased from much below 1% of GDP to close to average regional values. In 2012 banking and corporate sector bonds outstanding were equal to 5.8% and 5.1% of GDP respectively.

The weakest parts of securities market of Belarus remain those of equity and public debt. Stock market capitalization in 2012 was 0.7% of GDP, while the same CEE/CIS average value was 28% of GDP. Even having been on its peak in 2010 (6.7% of GDP), stock market capitalization in Belarus was lower than in any of its neighbours'.

Public debt securities in Belarus until 2008 used to be the major part of securities market giving over 9/10th of its value. In 2012 it was as big as financial and corporate sector bonds markets (5,6% of GDP), but still few times less than regional average.

The size of securities market in Belarus is not competitive in the region and does not stimulate capital formation. Indicators of liquidity of Belarusian shares market are also not optimistic. The value of shares traded as percentage of GDP, in 2012 in Belarus was 0.3%, much lower than in Russia (36%) and Poland (14%), but comparable to Ukraine (0.7%) and Lithuania (0.4%). In terms of turnover ratio (value of stock traded as percentage of market capitalization), Belarus in 2012 ended up high with 21%, loosing to only Russia (88%), Hungary (55%), Poland (43%), and Czech Republic (27%). But that achievement is rather questionable as being possible mainly due to decrease of stock market capitalization in 2012.

Given the described parameters of Belarusian securities market, its role in investment allocation could hardly be significant. Indeed, excessive reliance on internal funds in Belarus is a sign of potentially inefficient financial intermediation. According to World Bank's Enterprise Survey 2013, proportion of investments financed internally is 78% in Belarus compared to 61% in Eastern Europe & Central Asia (EECA). The difference in share of investments financed by equity or stock sales is even more striking: 1.1% in Belarus compared to 8.7% in EECA.

The decennial trend of decreasing return from high investment in Belarus (on average 32% of GDP during last 10 years) signals for existing systemic imbalances induced among others by the underdevelopment of securities market. The inversed incremental capital output ratio (calculated by dividing the rate of GDP growth by the investment-to-GDP ratio) dropped from 0.45% in 2004 to 0.2% on average for subsequent years.

Knowing that securities markets support efficient allocation of capital, why in Belarus its contribution to investment financing is so modest? There is a number of structural reasons. Domination of state-owned banks as a main source of investment creates channels of uncompetitive privileged access to capital for SOEs and consecutive high cost of capital for private firms. "On-the-paper" privatization changes only legal form of SOEs, without creating new ownership and stimulating corporate governance. Remained soft budget constraints allow delaying of restructuring. The situation when more investment is needed to produce an extra unit of output is likely to continue in Belarus without introducing market principles of public programs approving. In addition, the policy of excess employment and administrative wage targeting contributes to distortion in functional distribution of incomes: the share of labour incomes in GDP is growing despite shrinking of markets.

All in one, it generates a kind of institutional trap as diminished return to investment depresses investors' demand for strong financial institutions and creates incentives to capital drain. So the risk of slowing of economy's diversification and increasing of existing imbalances becomes higher.

Therefore, the securities market development in Belarus is a major precondition of sustainable economic growth and should be in the spotlight of comprehensive structural reforms aimed to improve resource allocation. ■

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