

Belarus. Reality.

Getting to the heart of the matter

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Leonid Zlotnikov

FROM TRIUMPH TO FAILURE – IN ONE ELECTORAL CYCLE

**On the development of the Belarusian economy in the period
between the presidential elections in 2010 and 2015**

The year 2010 and 'the Belarusian miracle'

Before the presidential elections, Lukashenko calls an All-Belarusian People's Assembly during which he reports on the achievements of the past 5 years and the program for the country's development for the next five years is adopted. And although this meeting of the *nomenklatura* is an illegitimate body (not mentioned in the Constitution), Lukashenko considers the adopted program to be national law.

The last one, the 4th Assembly, before the elections in December 2010, became a triumph of Lukashenko's power. Between 1997 and 2010 Belarus was among the ten countries in the world with the highest rate of economic growth; housing was developing rapidly and cities were being modernized, roads were reconstructed. According to statistical data, real wages grew by 1.63 times between 2006 and 2010. In December 2010, before the presidential elections, remuneration was raised from 369 (as of December 2009) to 515 dollars in equivalent. Alas, this was not due to economic success: the resources which allowed growth were borrowed from the outside.

One would think that the country prospered. And this is given the fact that after Lukashenko's coming to power in 1994, he stopped all market reforms and privatization. Nearly 70% of country's GDP is currently generated by the public sector or quasi-market sectors. For example, collective farms (*kolkhoz*) were formally transformed into private enterprises ('cooperatives' and even joint-stock companies). But they are still being set performance targets measured by physical indicators: what to sow and the quantities of which, volumes and at what prices to charge for processing or delivery to the state. The 'power vertical' still dismisses and appoints heads of production 'cooperatives' and even consumer cooperatives etc. In general, in the days of Lukashenko, all the market forms which had managed to emerge before he came to power were reinstalled with 'socialist content'.

For nearly two decades, Lukashenko has claimed that he is a supporter of the market economy, but an overly rapid transition to it ('shock therapy' in his understanding) will bring suffering to the population and this is why one should not rush towards reform. And it was as late as on February 29, 2015, during a press conference with Russian journalists, that he displayed his true colors by declaring: 'I will not give up on the planned economy until the end of my presidency'.

'Successful' experience of the command (socialist) Belarusian model has been used by the leftists in different countries to discredit liberal reforms. 'I want to stress once again: your development model is the most efficient and you should continue to follow this path with confidence – leader of the Russian Communists Gennady Zyuganov stated after taking the floor at the 4th All Belarusian People's Assembly (2010). – If we are to compare economic performance with the year 1990, Belarus can boast 150% growth. Russia has not managed 100%.'

When economic growth began to decline in Belarus in 2011, the authorities explained this by random factors. Academician Sergey Glazyev, the current advisor to President of the Russian Federation Vladimir Putin, an adherent of state socialism, came to the rescue of the authorities. He attempted a theoretical explanation of the temporary slowdown in the Belarusian economy. In his interview entitled 'Belarusian economic model – our mutual economic miracle'¹, he tried to show that 'the currency crisis which emerged in Belarus (in 2011 – editor's note), surprisingly, had resulted from the high rates of economic growth in Belarus over the past year and a half'.

Firstly, following a decline in foreign trade in the crisis year of 2009, Belarusians stimulated exports, Glazyev argued, by reducing export prices 'here and there', hence, the strain on the balance of payments. Secondly, Glazyev argued, the situation aggravated due to growing prices of Russian energy.

However, arguments of the academician are refuted by the facts. Firstly, prices always drop or grow 'here and there'. Therefore, as a rule, a price index which reflects the price dynamics of the entire mass of commodities is applied at the macro-level. And this dynamics, on the contrary, according to statistical data, was in favor of Belarusians. Compared to 2009, average export prices increased by 15.5% while import prices – by 13.3% in 2010. In 2011, again, average export prices grew to a far greater extent compared to import prices (by 23.1% versus 13.2% on imports).

Secondly, the reduction of hidden Russian subsidies in the form of cheap energy had no significant effect on the country's balance of payments, since the outflow of foreign currency from the country related to the rising prices of Russian energy commodities amounted to USD 2.5–2.6 billion in 2010–2011 (first half of the year). During the same period, the inflow of foreign currency to the country due to the growth of foreign debt and sales of shares of 'Beltransgaz' to Russia comprised USD 11 billion *i.e.* the inflow of currency outstripped the outflow 4-fold due to the decrease in Russian subsidies. Hence, reduction of the latter could not be the reason for the currency crisis in the country.

The year 2015: the remuneration of 420 dollars instead of the promised 1000 dollars

The sunset of 'the Belarusian miracle' which began immediately after its greatest triumph in December 2010 continues. Prior to the next presidential elections (2015, October), the economy is suffering its deepest crisis ever in all the years of Lukashenko's rule. There were two devaluations of the Belarusian ruble (2011, 2014). For the first time in 20 years, Belarusian statistics recorded a decline in GDP and drop in real wages in 2015. Instead of the promised remuneration of 1000 dollars, it amounted to about 420 dollars in September 2015, which is nearly 100 dollars less than at the time of the 2010 elections.

Over the past 5 years, the second wave of loss of competitiveness of the Belarusian manufacturing industry occurred. The first wave was related to the halt in the production of Belarusian computers, appliances, CNC machine tools etc. which were, truth be told, 'clumsy' imitations of high-tech equipment manufactured in the West, and subsequently became uncompetitive after the collapse of the USSR.

Now, the time is ripe for less innovative manufacturing (cars, tractors and organic chemistry goods) to leave the stage. This is due to the inability of the command economy to negotiate the next corner of internalization of production, maintain a competitive environment at home etc. If, as shown above, in 2009–2010, Belarusian export prices grew faster than import prices, the reverse trend is observed after 2012. For example, during the 1st half of 2013, average export prices decreased by 2.2% whereas import prices dropped by 0.9% compared to the same period of 2012 (note that energy prices in the world market remained high).

1 See the 'Soyuznoye gosudarstvo' magazine No. 7/2011, p.38

This tendency, negative for the Belarusian economy, has bolstered in recent years: in 2014, during the 1st half, export prices dropped by 3.7% while import prices – by 0.9%.

Lower energy prices lead to a spasmodic decline in the already declining competitiveness of Belarusian exports in the second half of 2014. Belarusian manufacturers lost their main competitive advantage – lower (by about half) energy prices. As a result, for example, in the 1st half of 2015, despite a 10%-increase in the physical volume of exports of meat and dairy products, the revenue in terms of value decreased by 12%. (Let us recall that the share of the full cost of energy in the cost of food production reach 20%). In general, average export prices decreased by 27.8% and import prices – by 16.7%.

The Belarusian authorities justify plummeting production levels and exports in manufacturing by the events of the second half of 2014 (falling energy prices and sanctions against Russia). However, statistical data indicate a decline in manufacturing industry starting in second half of 2012. For example, truck manufacturing in the 1st half of 2013 decreased by 28.4% on the previous year.

By the end of 2014 – beginning of 2015, Belarus found itself in a deep economic crisis, GDP dropped (by 4% in January–July 2015). Statistical data show a decline in real income of the population starting in August last year: it fell by almost 10% by the end of the year.

Many large enterprises in the country suffered losses at the end of the first half of 2015 (MAZ, MTZ, BelAZ, Gomselmash etc.). According to statistical data, such enterprises constitute 20%. Another 46% showed a profitability of 0–5%. However, the statistics do not take into account either the time for the turnover of capital in enterprises or double-digit inflation (in annual terms). If this is taken into account, then in reality, at least half of the enterprises are unprofitable according to 'the breakeven point' indicator.

The authorities are trying to prevent the income of the population from falling at least temporarily, until the elections start. Based on his decree in late June, the president forced banks to issue loans of nearly a billion dollars to 'floored' mechanical engineering businesses (with the loans to be repaid in the early 2020's). Since December 2014, the government banned enterprises from increasing prices of goods manufactured in Belarus. The prices of a number of goods (pork, for example) fell. Retail chains are closed down if higher prices are discovered. And they are reopened only following the payment of fines and their return to pre-devaluation prices. In the first half of 2015, in Minsk alone, 43 trade establishments had fines imposed upon them for violating pricing legislation, according to deputy chairman of the Minsk City Executive Committee Domoratsky.

Thus, the authorities practice price control also by eating away at the capital of the companies including private ones. During the first seven months of 2015, retail prices grew by 107% while wholesale prices – by 130%. This means, that 'an overhang' of prices formed, which will lead to a rise in retail prices after the presidential elections.

No economic recovery expected after the elections

The situation in terms of foreign trade has worsened in 2015. The total value of exports of the country has decreased by 26.3% or 4.9 billion dollars while that of imports – by 24.7% or 4.8 billion dollars compared to the 1st half of 2014. The country's credit rating remains low and external loans are shrinking.

The authorities had previously managed to borrow both to repay loans with due maturity dates and the negative balance of summary costs, however, in the 1st quarter of 2015, new loans (1.2 billion dollars) were insufficient to repay the previous ones (1.7 billion dollars) due in the 1st quarter. They had to spend 0.5 billion dollars of forex reserves. As a result,

after a decade of growth, gross foreign debt decreased by this amount in the 1st quarter of 2015. However, the decrease in foreign debt is indicative not of improvement, but of the deterioration of Belarus' relations with the outside world.

The government was forced to look for the resources to increase wages within the country. In February 2015, real wages started to grow whereas GDP continued to fall. However, in summer 2015, the government managed to raise wages by 3–5% and even announce an increase in retirement pensions taking effect in September by 5–6%, *i.e.* 1 month before the presidential elections.

However, there are no resources in the country to maintain this increase in the income of the population following the elections. In summer 2015, the level of real wages exceeded their level by almost 1.2–1.3-fold in December 2011 when it was brought in line with the capacity of the Belarusian economy.

Thus, the country goes on living beyond its means, eating away at forex reserves and the capital of businesses. It creams the inflation tax off the income of the population and postpones the growth of prices (and inflation tax) until the near future.

The crunch could be observed in the country in past years, too, for example, during the global financial crisis of 2009. But then, in the interests of attracting foreign loans, both from the West and the East, the national authorities spoke of the liberalization of the economy, creating conditions for the development of small business and the inflow of foreign capital. There are no constructive proposals in this respect now.

In accordance with his beliefs, Lukashenko sees the way out of the crisis in strengthening executive discipline in the power vertical. He spoke of this back on August 28, 2015, during his visit to agricultural production joint-stock-company 'Belovezhskiy': 'There is a need for an iron fist, iron routine... If there is discipline and order including technological, we will develop... If there is a good leader, a couple of good specialists, the establishment will recover. If the above are not there – equipment, money and remuneration are in vain'.

He emphasized his loyalty to the current 'Belarusian model' yet again: 'Do not demolish anything. We have no money for demolition or errors'²

Officials do not object to the president (for they can be punished) and 'strengthen' executive discipline. Below (in Table 2) please find a copy of the table from the report by Belstat (the National Statistical Committee of the Republic of Belarus) on the stock levels of finished goods in warehouses of the leading enterprises in the country as of July 2015. Leaders of Western businesses would be dismissed immediately for overseeing such a diversion of capital from economic circulation. However, here, directors even have to fulfill verbal instructions about saving jobs, increasing production volumes etc. But, it is hard to imagine, even given Belarusian conditions, that executive discipline could be brought to such perfection, that, for example, the producer of freight cars (part of the 'BelAZ' factory) could hold unsold produce in the amount of more than 5 annual volumes of production.

Thus, there are no more means to support the self-destructing 'Belarusian economic model'.

Overall, the Belarusian economy will be in a state of stalemate after the elections.

2 See <http://www.belta.by/president/view/prezident-v-selskom-hozjajstve-nuzhny-zheleznye-rukovoditeli-i-zheleznyj-porjadok-160602-2015/>

Table 1

The volume of production of basic goods of the Belarusian industry

Name	Unit	2010, 1 st half	2015, 1 st half
Paints, varnishes	Thousand tons	103.1	65.4
Chemical fibers and yarns	Thousand tons	113.2	102.1
Tires for trucks	Thousand items	547	359
Metal-cutting equipment	Items	1867	581
Refrigerators	Thousand items	526	494
Trucks	Items	5927	1730
Tractors	Thousand items	23	19.3
Internal-combustion engines	Thousand items.	39.2	24.8
Grain harvesters	Items	1660	65
TV sets	Thousand items	228	16,8
Dump trucks	Items	864 (2012.1 st half)	195
Cement	Million tons	2.11	2.14
Potash fertilizers	Million tons	2.74	3.4
Plate glass	Million m ²	0.84	17.2

Table 2

Stock levels of types of transport and equipment

	As of July 1, 2015		
	total	% of	
		average monthly production volume	stocks as of June 1, 2015
Internal combustion engines for cars and motorcycles, thousand items	2.8	67.3	131.7
Buses, items	277	5.1-fold	99.6
Trucks, items	2 088	7.5-fold	96.6
Dump trucks to be operated under the off-road conditions, items	1265	8.3-fold	107.2
Special purpose vehicle, items	38	3-fold	90.5
Trailers and semi-trailers, items	1 240	4.8-fold	99.4
Freight self-propelled wagons, items	1 018	65.7-fold	97.2
Motorcycles and side-car, items	1 004	4.6-fold	71.6

Source: The socio-economic situation of the Republic of Belarus in January-July 2015