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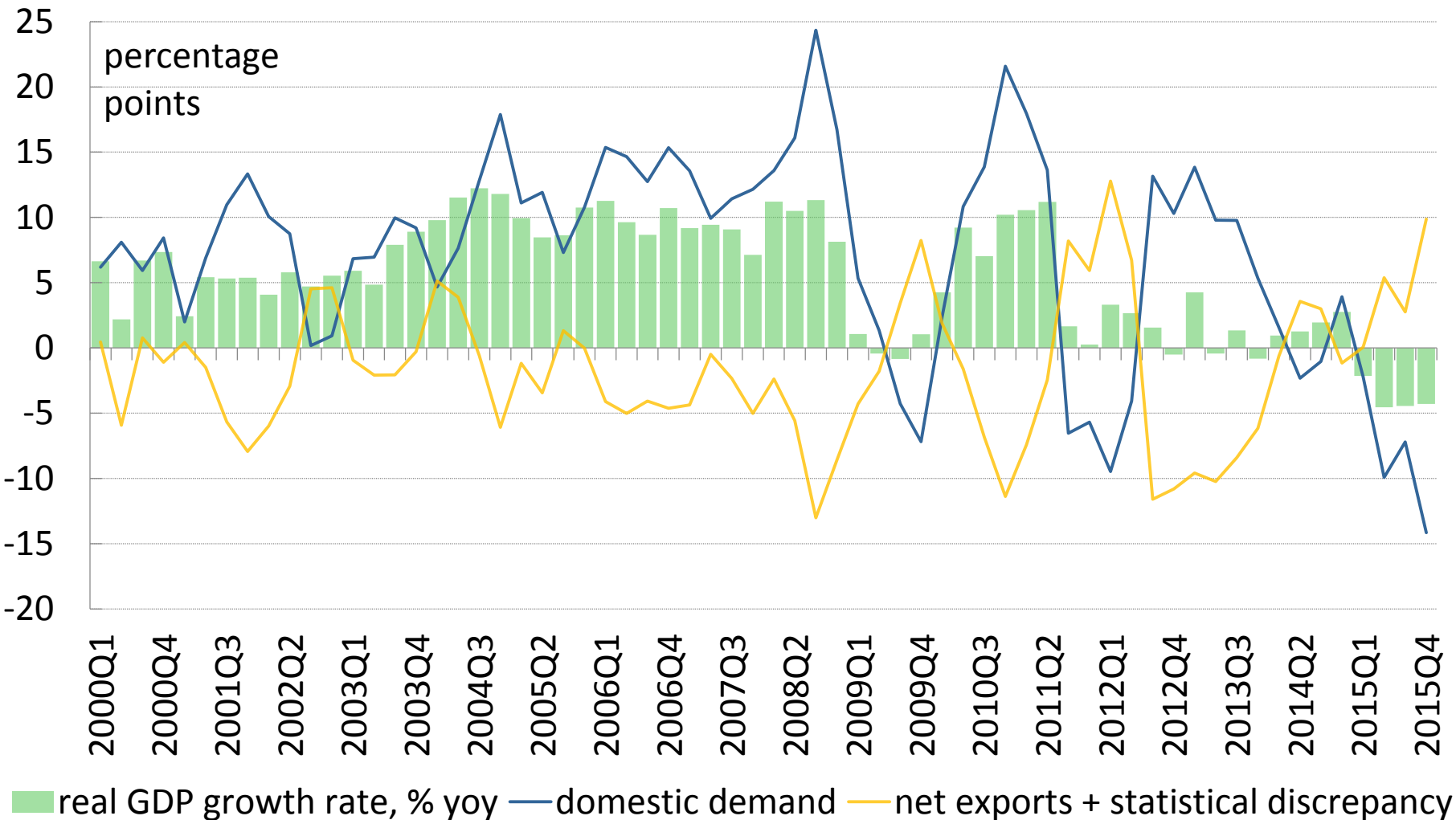
# Russia: The Belarusian Challenge

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# Outline

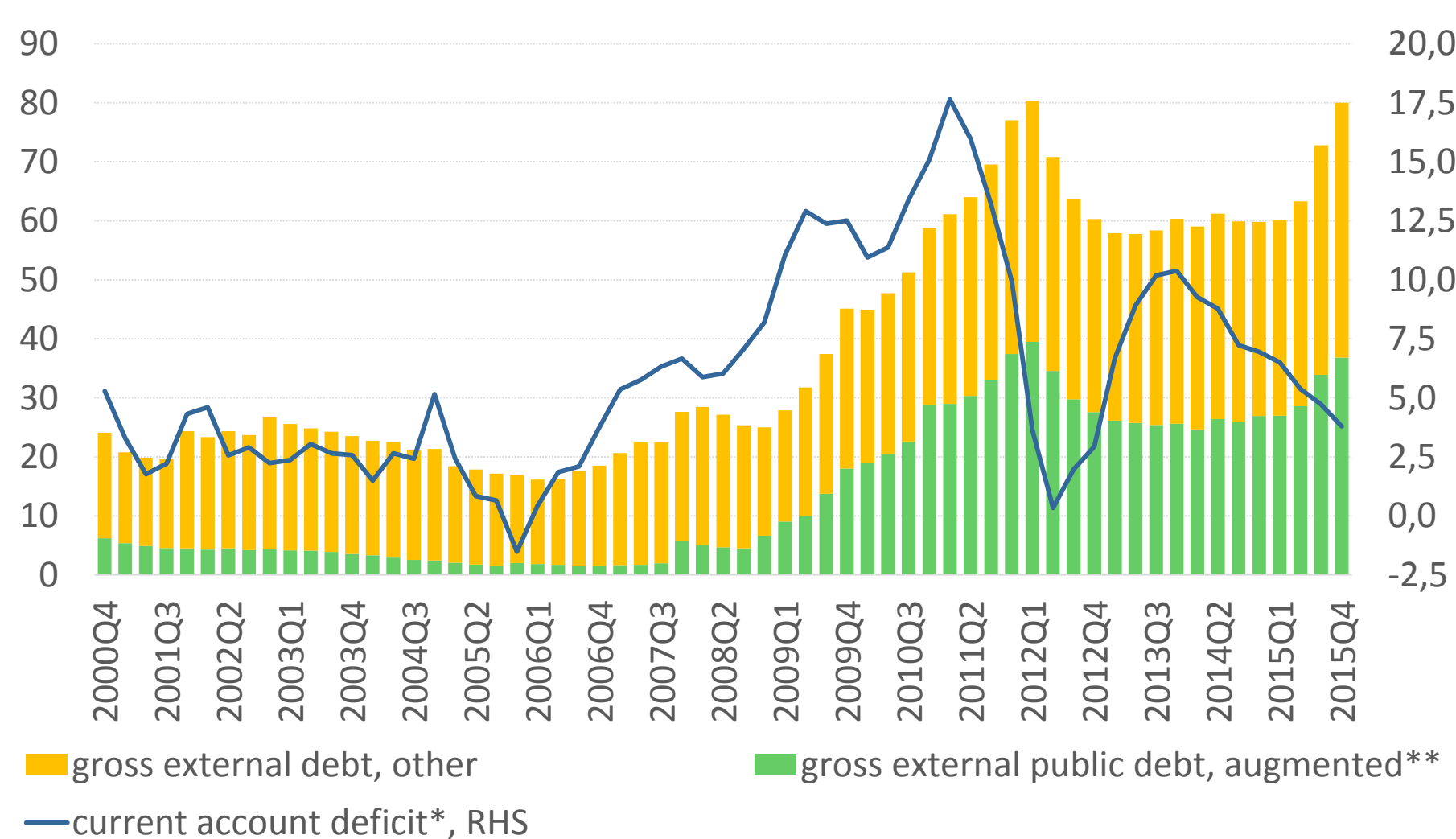
- Belarus: A success story
- The role of Russia
- Short-term challenges
- The long-term challenge
- Beyond Russia: The domestic challenges

# Belarus: Among top-25 fastest growing economies globally for a decade..



- 2001–2005 – World's 24<sup>th</sup> (7.5% a year), 2006–2010 – 23<sup>rd</sup> (7.3%), 2011–2015 – 153<sup>th</sup> (1.2%)...
- ...but at what price? Correlation between contributions of domestic demand and net exports is -0.84.

# ...but the only country where CA deficit went up during the IMF program implementation (2008 crisis)



- Between January 1, 2001 and July 1, 2014 (maximum, now it is 4% lower), gross external debt went up 20.7 times;
- Between January 1, 2001 and October 1, 2015 (maximum, now it is 1.8% lower), gross external public debt went up 38 times.

\* 4-quarter moving sum.

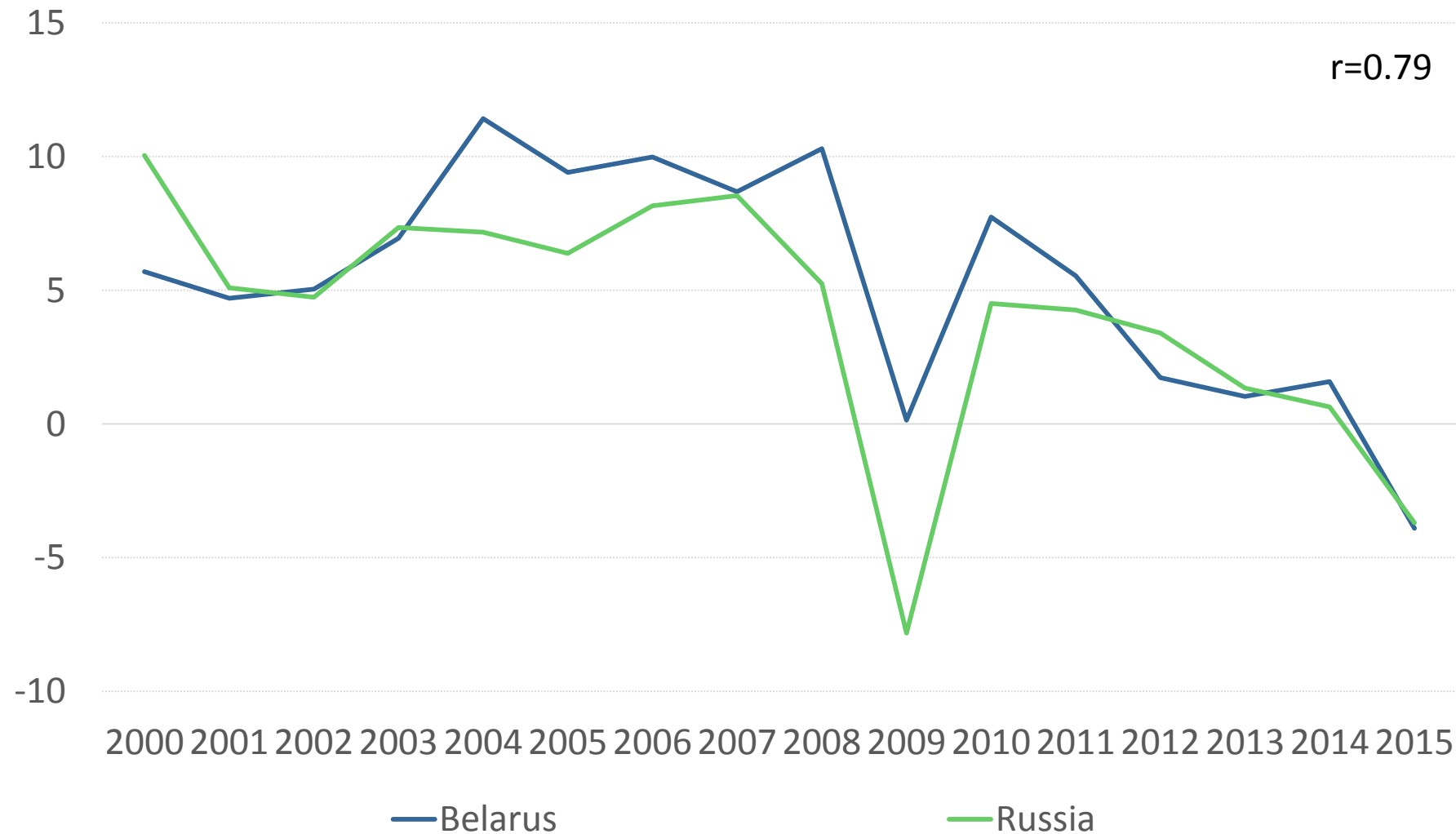
\*\* Including external debt of the national bank + domestic government debt denominated in foreign currency.

# Why Russia?

“Each day on his way to work as he drives past a church near his home in the Minsk suburbs, the chairman of Belarus’ central bank says a prayer. *“Every morning I look at the church and think to myself, ‘Oh Lord, let us have a good situation in Russia. Let us next year have an oil price above \$50. Let there be more than 6.5 per cent GDP growth in China.’ Every day,”* said Pavel Kallaur.”

[Financial Times Europe, 15/10/2015](#)

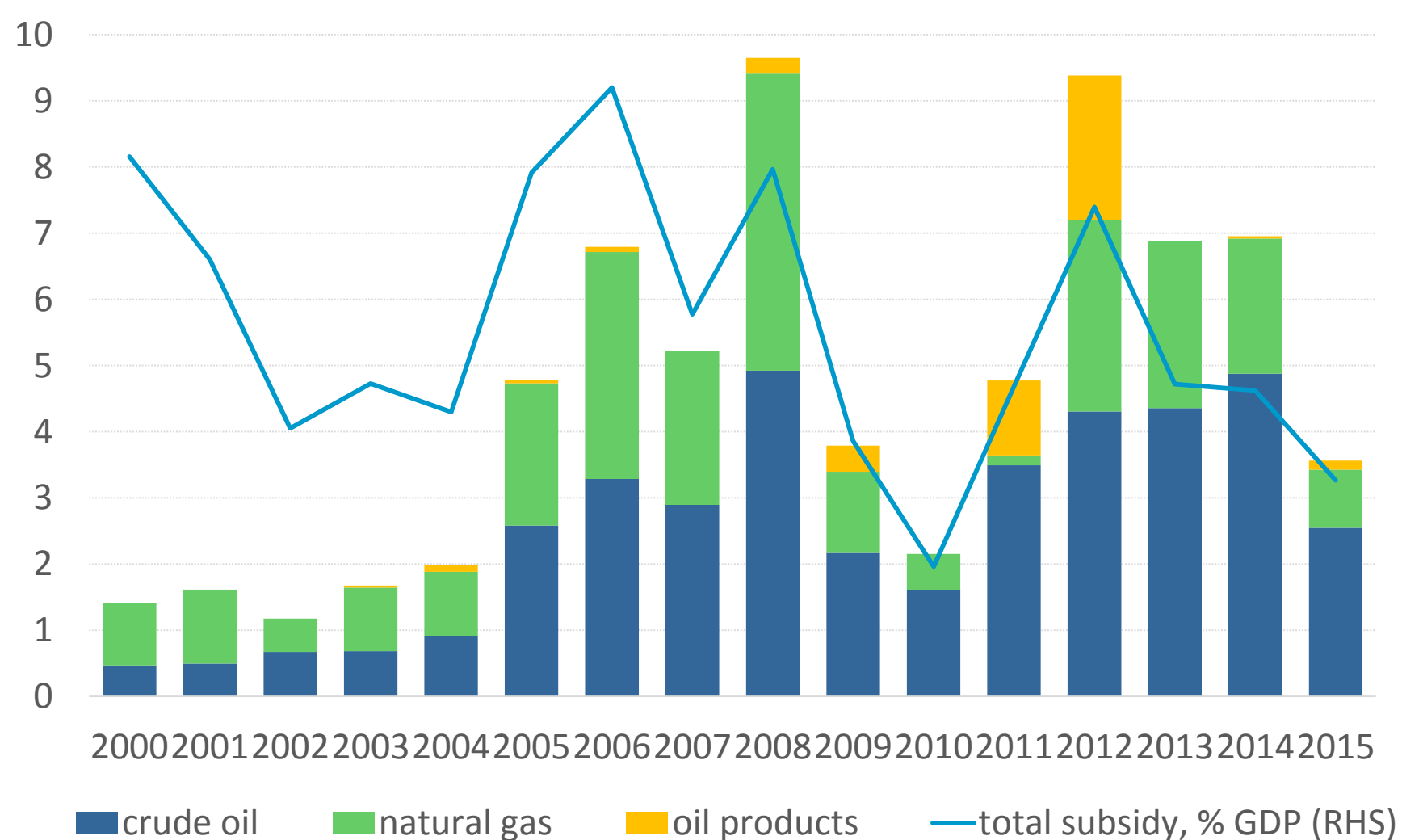
# Intuition: External trade (real GDP growth rates, % yoy)



- Modelling results: 1% of real GDP growth in Russia gives about 1.2% of Belarusian “non-oil”\* exports growth in real terms.

\* Total exports of goods and services minus exports of crude oil, oil products (including revealed re-exports aso), and potash fertilizers.

# Intuition: Energy subsidy (USD bn)



- Crude oil: difference between the price of exported\* crude oil and the price of its imports times volume of crude oil imports minus customs duties for oil products (4Q2010–4Q2014);
- Natural gas: difference between benchmark gas price\*\* and price for imported gas times volumes of gas imports.

\* Belarus exports approx. 1.6 Mt of own crude oil annually.

\*\* Taken as Russian gas market price multiplied by historical maximum ratio between imported gas price and Russian gas market price.

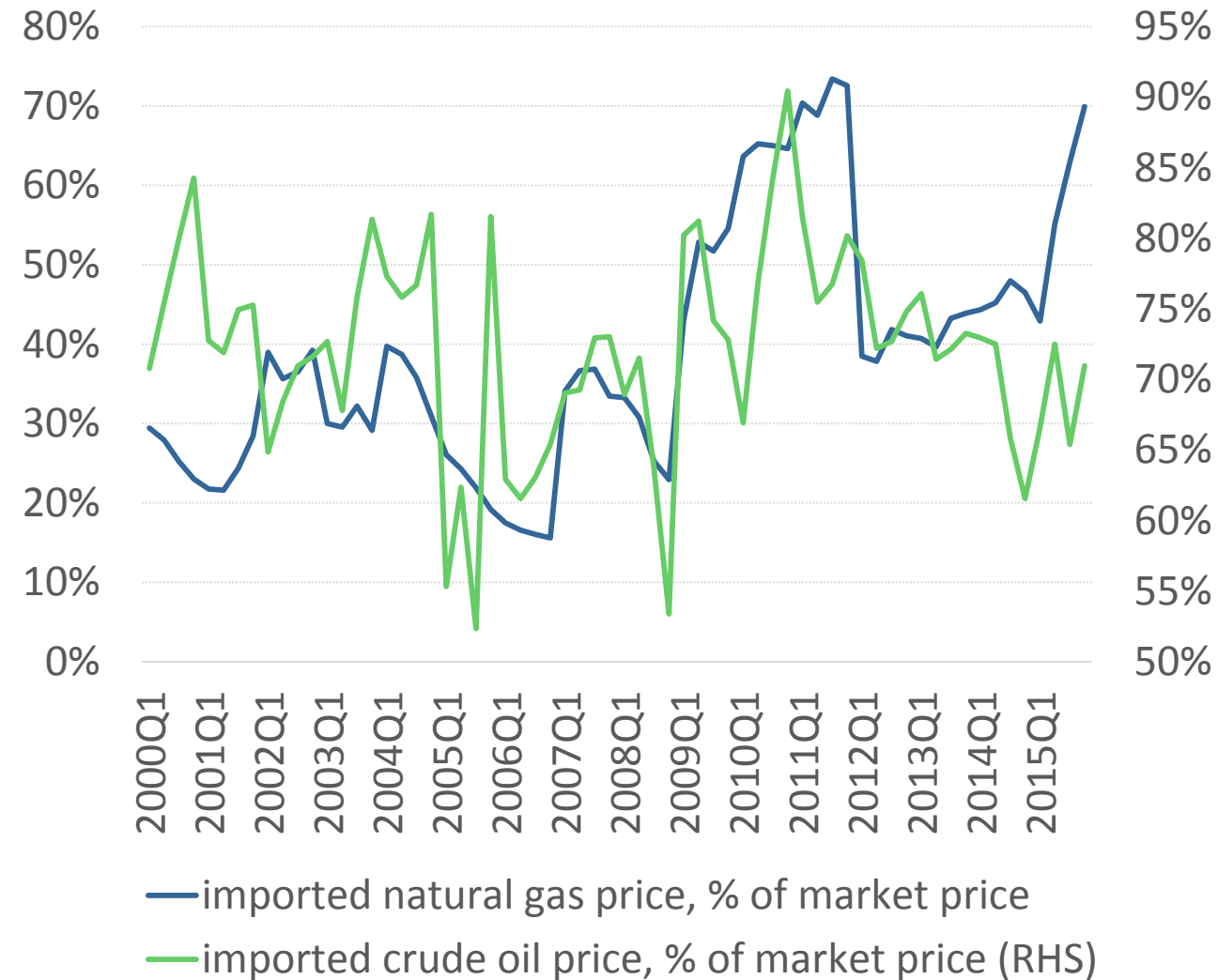
# Intuition: Borrowing (government debt, USD mln)

	2013		2014		2015		2013-2015		
	Acquisition	Repayment	Acquisition	Repayment	Acquisition	Repayment	Acquisition	Repayment	Change
Russia (government, banks, ACF)	1755.6	150.0	2526.9	992.3	1571.9	653.1	5854.4	1795.4	4059.0
Chinese banks	533.3	87.2	626.3	182.3	528.1	147.7	1687.7	417.2	1270.5
Other (IMF, Eurobonds, IBRD, Venezuela, etc.)	140.7	1758.6	47.6	1388.4	72.9	1215.6	261.2	4362.6	-4101.4
<b>External government debt</b>	<b>2429.6</b>	<b>1995.8</b>	<b>3200.8</b>	<b>2563.0</b>	<b>2172.9</b>	<b>2016.4</b>	<b>7803.3</b>	<b>6575.2</b>	<b>1228.1</b>
Foreign currency denominated government bonds	949.2	145.8	706.8	199.6	2137.5	399.5	3793.5	744.9	3048.6
<b>Government debt in foreign currency</b>	<b>3378.8</b>	<b>2141.6</b>	<b>3907.6</b>	<b>2762.6</b>	<b>4310.4</b>	<b>2415.9</b>	<b>11596.8</b>	<b>7320.1</b>	<b>4276.7</b>



# Short term challenges

- Depreciation and gloomy growth prospects (in January, the IMF revised its GDP growth forecast for Russia for 2016 downwards: from -0.4 to -1%; Russian Ruble has fallen far deeper than expected by the IMF in October forecast);
- Lower “energy subsidy” (cheap oil and rigid gas contract);
- Growing debt repayment obligations (in 2016, Belarus should pay principal of about USD 1.1 bn to Russia).

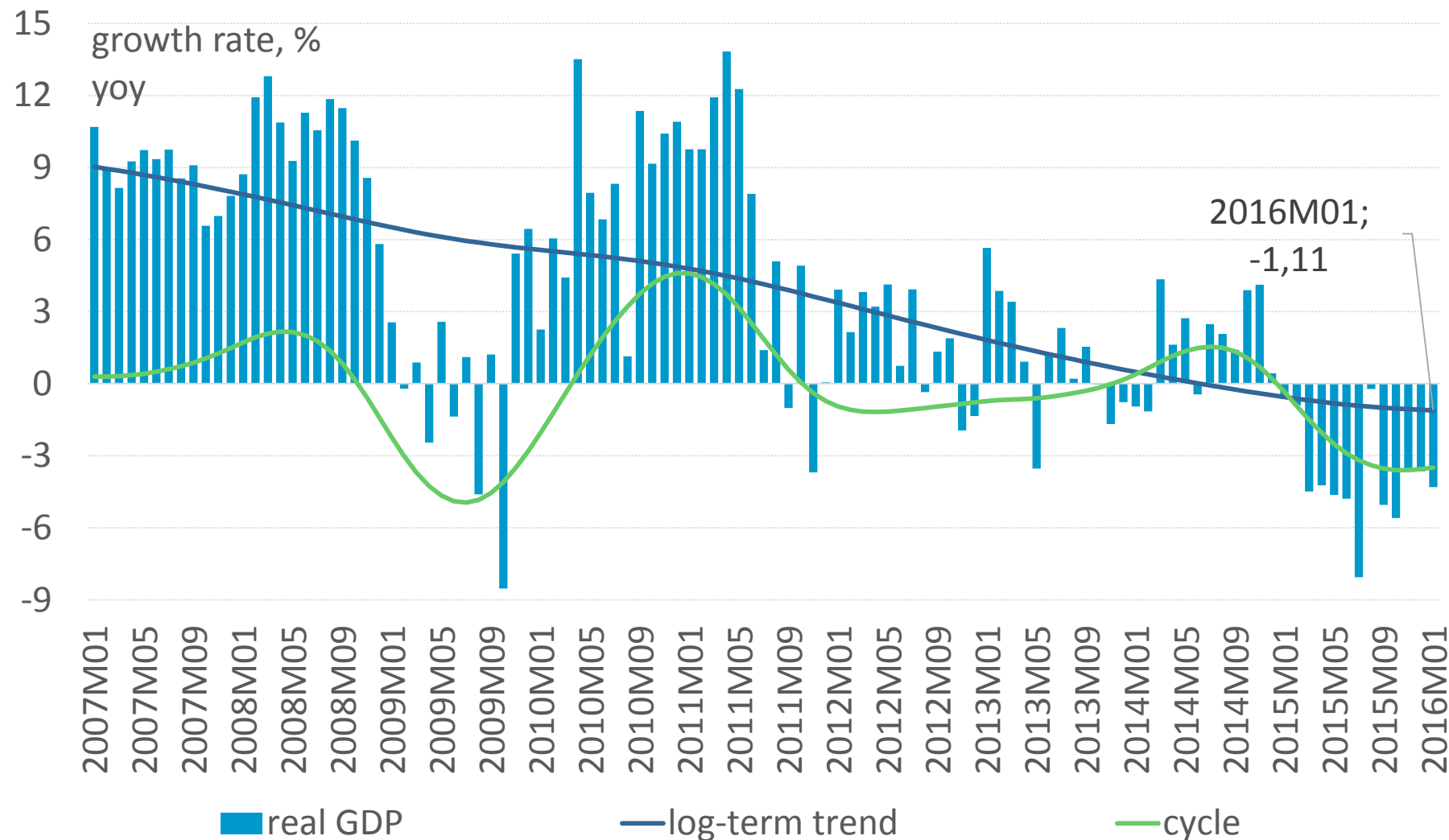


# The long term challenge: The customs union for what?

HS item (with contribution to increase of Russian imports from Belarus of more than 1%)	Contribution to increase of Russian imports from Belarus, %	Average annual growth rate, %		Russian imports from Belarus, % of Russian imports		
		Russian imports from Belarus	Russian imports	1998	2014	Change, percentage points
02 Meat and edible meat offal	8.3	17.1	6.7	2.8	12.6	9.7
03 Fish and crustaceans, molluscs ...	1.4	21.9	17.9	2.5	4.3	1.8
04 Dairy produce; birds' eggs; natural honey ...	22.2	17.0	12.2	25.1	48.8	23.7
07 Edible vegetables and certain roots ...	1.8	18.5	14.2	2.8	5.1	2.3
08 Edible fruit and nuts; peel of citrus fruit ...	1.2	15.2	13.4	1.5	2.0	0.4
16 Preparations of meat, of fish or ...	4.1	20.2	5.3	5.7	47.6	42.0
25 Salt; sulphur; earths and stone; ...	2.1	13.2	12.2	11.5	13.3	1.7
27 Mineral fuels, mineral oils and products ...	10.3	8.6	5.4	16.6	26.8	10.2
39 Plastics and articles thereof	7.9	12.2	15.9	11.0	6.6	-4.5
44 Wood and articles of wood; wood charcoal	1.4	7.4	11.4	21.0	11.6	-9.4
61 Articles of apparel and clothing accessories ...	1.4	6.4	21.9	40.8	4.6	-36.2
62 Articles of apparel and clothing accessories ...	2.1	10.4	21.0	21.9	5.1	-16.8
68 Articles of stone, plaster, cement, asbestos ...	1.9	9.7	11.1	19.2	15.5	-3.7
72 Iron and steel	1.3	2.8	11.8	18.7	5.0	-13.8
73 Articles of iron or steel	3.3	6.2	11.1	12.3	6.0	-6.3
76 Aluminium and articles thereof	1.4	14.5	10.7	4.5	7.6	3.1
84 Nuclear reactors, boilers, machinery ...	8.8	5.8	14.0	7.2	2.2	-5.1
85 Electrical machinery and equipment ...	5.4	6.7	16.5	7.8	1.9	-5.9
87 Vehicles other than railway or tramway ...	1.2	0.7	16.9	33.0	3.0	-30.0
90 Optical, photographic, cinematographic ...	2.1	9.4	10.5	3.2	2.7	-0.5
94 Furniture; bedding, mattresses, mattress ...	1.9	3.5	12.5	30.0	7.9	-22.1
Top-21	91.5	7.8	13.7	12.2	5.3	-7.0
Other items	8.5	2.2	10.6	8.4	2.4	-6.0
Total	100.0	6.3	12.5	10.6	4.3	-6.3

- Modelling results: on average, 1% of Russian merchandise imports increase leads to 0.78% of Russian imports from Belarus increase (both in value terms), while 1% appreciation of the Belarusian Ruble against the Russian Ruble costs 0.23% of Russian imports reduction from Belarus (value);
- Being protected against the rest of the world within the customs union with Russia, Belarus lost almost 2/3 of its share in Russian imports between 1998 and 2014;
- “Success stories”: mainly food – thanks to Belarusian food processing private companies, but also because of the sanctions – and oil products (obligations of Belarus within the energy balance with Russia); “failures”: traditional sectors (transport and machinery, clothes, wood processing, etc.) – distorted incentives and mismanagement at the state-owned enterprises (SOEs).

# Growth potential of the “Belarusian model” is totally wasted



- Since July 2014, growth rate of the real GDP long term trend\* is negative – *structural recession*.
- Since January 2015, growth rate of the real GDP cycle is negative (slight increase in 2014 thanks to record high potash fertilizers production) – *cyclical recession*.

\* Based on the HP-filter.

# Beyond Russia: The domestic challenges

- Risk of the banking crisis (tight monetary and fiscal policies caused non-payments);
- Risk of the sovereign default (short-term government debt obligations are comparable to the reserve assets);
- Social risks (unemployment growth, utilities tariffs increase, lower incomes, higher poverty, lower social guarantees by the state and SOEs);
- Political risks (attempts of the elite to re-distribute the pie in a situation of falling electoral rating of the President);
- **Partial reform trap (only conditionality matters – little reform ownership, very slow pace).**
- And Russia (not only!) again: soft budget constraints do not provide incentives to reform...