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# Recent Developments and Impact of the International Financial Crisis on Belarus

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# New trends in the global economy (1)

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1. Since August-September 2008 a new stage of the global crisis has begun. NPL and bad assets of the financial sector led to the “trust crisis” at the financial markets, which resulted in credit rationing and finally led to second crunch at the stock markets (Lehmann Brothers bankruptcy became the symbol of the new stage of the crisis).

# New trends in the global economy

## (2)

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2. After almost one year of the financial system contagion, the crisis began to propagate to the real sector of the economy.

3. In September-November 2008 the measures of the central banks and governments were intensified in order to prevent the recession in the real sector.

4. However, majority of the developed countries stepped into the recession rather rapidly. At this stage their demand was reducing because of the investments and consumption of luxury goods. The latter provided also diminishing trade between developed countries.

# New trends in the global economy

## (3)

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5. Correspondingly the demand in developed countries for raw goods (mainly from emerging countries) dropped as well, which led to a rapid decrease of the prices for raw goods.

6. In November-December the monetary policy in majority of developed countries were softened radically, which led to the discussion about the liquidity trap.

7. Decrease in employment during November-December led to further substantial decrease of the demand mainly due to the consumption, which made the recession unavoidable.

# New trends in the global economy

## (4)

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8. Since the end of 2008 developed countries faced with deflationary pressure, due to the reduction of the aggregate demand.

However, at this stage the trends between developed countries and developing ones seems to be divergent.

# New trends in the global economy

## (5)

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During last years majority of emerging economies operated under the substantial deficit of current account of the balance of payments. In condition of high liquidity investments and borrowings from abroad allowed to finance the deficit.

Another group of the emerging and transitional countries rich with natural resources provided positive current account basing just on trade with these resources.

Both groups faced with: (i) decrease of external demand for both commodities and natural resources, (ii) huge decrease of prices for natural resources, (iii) extremely rigid access to foreign borrowing.

# New trends in the global economy

## (6)

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Thus all developing countries faced with the pressure on their exchange rates and had to depreciate it (those with the flexible forms of exchange rates).

Countries with any form of the pegs, could not but have to devalue their currencies immediately (Belarus, Kazakhstan).

However, depreciation of the national currency leads to the inflationary pressure for the developing countries. Thus, they face at the same time with reducing demand and deflationary pressure because of it, but inflationary pressure because of the external disequilibrium.

***Finally, majority of developing countries will face with recession under inflationary pressure as the total effect.***



# New trends in the global economy (7)

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Possible further stages of the global crisis.

1. Impact of the real sector on the financial system, which might lead to the second stage of the financial institutions crises because of the bad assets and NPLs (this stage seems to be unavoidable and perhaps it has already begun).
2. Global bank panic (the crisis of banks' liabilities).
3. Global debt sovereign crisis.
4. Global currency crisis (basing on the one of the reserve currencies).
5. Depression of the real sector (seems to be unavoidable under any scenario).

# New trends in the global economy (8)

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Possible further stages of the global crisis.

6. Limitation of the negative expectations for the real sector.
7. Recovery of the global economy.
8. **Reform of the global financial system.**

# New challenges for the Belarusian economy in 2009 (1)

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1. The negative landscape of the external environment will lead to lowering demand for the Belarusian exports, which sharpens the problem of balancing external economic activity
2. In one row with other transition economies, Belarus faces the pressure on its exchange rate and inflationary pressure

However, besides the problems originated from the global crisis, negative external environment also sharpens the problems of the Belarusian economy associated with its structural distortions

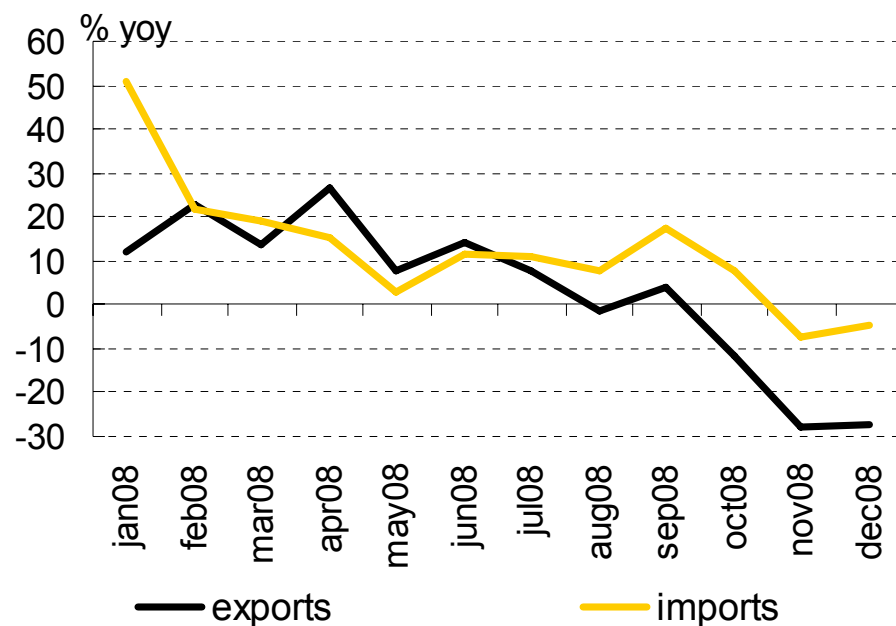
# New challenges for the Belarusian economy in 2009 (2)

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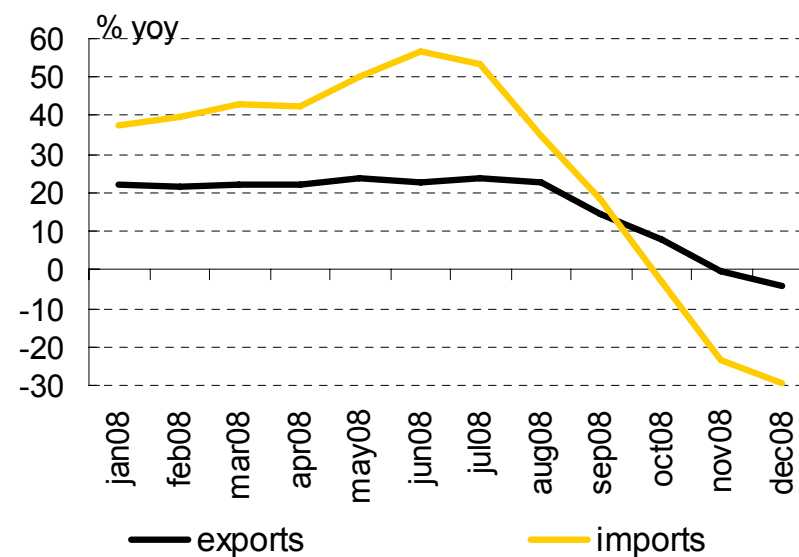
## External sector:

- ❑ Exports to Russia and competitiveness at the Russian market is of prior concern.
- ❑ Declining prices for raw materials (oil and oil products, potash fertilizers, ferrous metals) will decrease revenues from external trade.
- ❑ Restriction of imports means either decreasing production (through intermediary imports) or restriction of investments imports, which has negative medium-term consequences.
- ❑ Only “official” finance seems to be available for Belarus, i.e. intergovernmental loans and loans for International Financial Institutions

# Exports and imports of goods, Russia

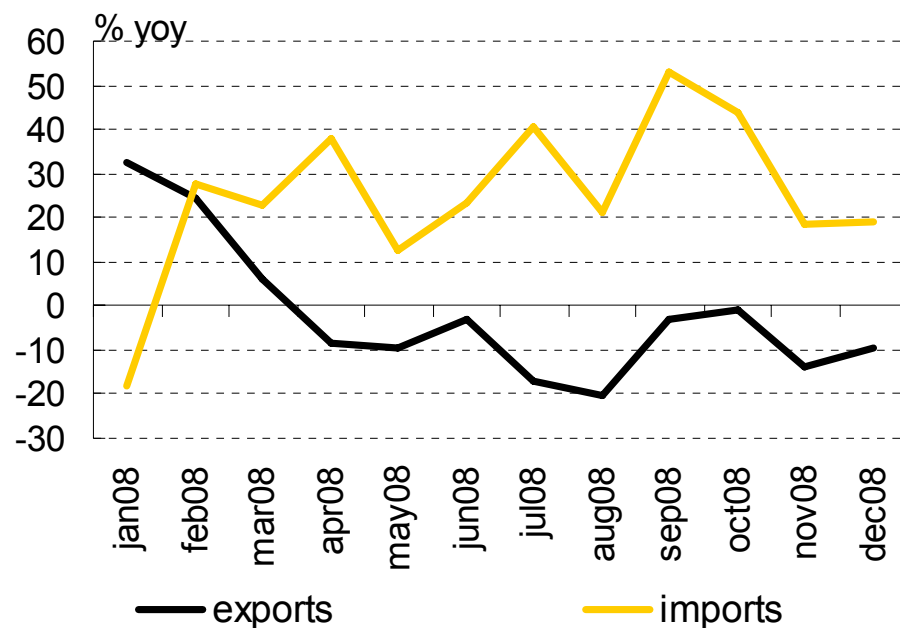


□ Volumes, growth rate

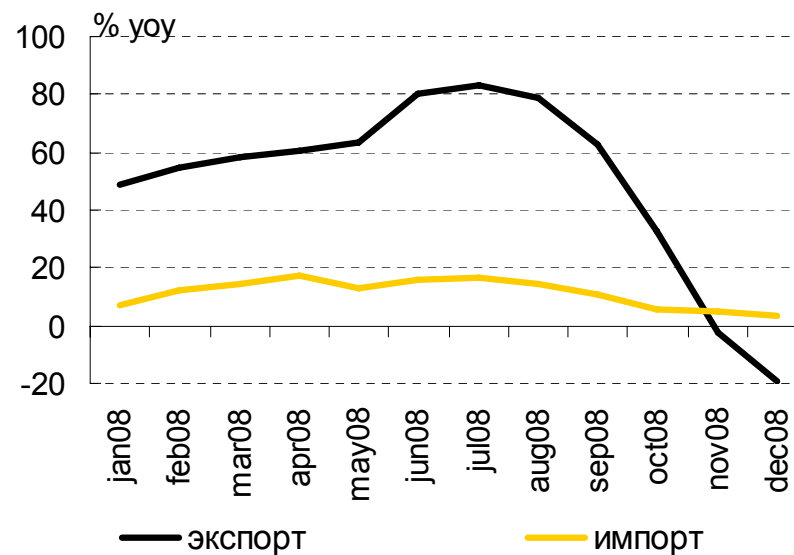


□ Average prices, growth rate

# Exports and imports of goods, non-CIS countries



▣ Volumes, growth rate



▣ Average prices, growth rate

# New challenges for the Belarusian economy in 2009 (3)

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Financial sector: Current peg seem to be assessed by economic agents as “as less than fully credible monetary policy”, which leads to:

- Dollarization of economic agents’ assets
- Distortions at the credit market
- ➔ Additional inflationary pressure, because of the lowering money demand

# New challenges for the Belarusian economy in 2009 (4)

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## Domestic demand

- Lack of the sources of finance for investments  
→ bank loans and/or government finance is needed
- The tendency for declining consumption might be struggled only through the budget policies. but increase of salary higher than productivity and/or budget transfers will lead to: (i) declining external competitiveness, (ii) budget deficit, (iii) additional demand for foreign currency.



# Contribution of aggregate demand components to GDP growth in 2008\*

	2008Q1	2008Q2	2008Q3	2008Q4
<b>GDP, % yoy</b>	<b>11.2</b>	<b>10.5</b>	<b>11.2</b>	<b>7.5</b>
<i>Final consumption:</i>	6.1	7.6	11.7	<b>6.5</b>
households	5.8	7.4	11.8	<b>6.4</b>
general government	0.3	0.1	-0.1	<b>0.2</b>
NPISHs	0.0	0.0	0.0	<b>0.0</b>
<i>Gross capital formation:</i>	8.0	10.4	7.9	<b>11.7</b>
gross fixed capital formation	6.4	9.8	6.4	<b>9.0</b>
change in inventories	1.6	0.6	1.6	<b>2.7</b>
<b><i>Net exports of goods and services</i></b>	<b>-2.8</b>	<b>-7.8</b>	<b>-10.4</b>	<b>-14.1</b>
exports	13.5	3.1	-1.0	<b>-8.3</b>
imports	-16.3	-10.9	-8.3	<b>-5.8</b>
<b><i>Statistical discrepancy</i></b>	<b>-0.2</b>	<b>0.3</b>	<b>1.9</b>	<b>3.4</b>
<b><i>Domestic demand</i></b>	<b>14.2</b>	<b>18.0</b>	<b>19.6</b>	<b>18.2</b>

\* Percentage points

# Russian economy and demand for Belarusian exports (1)

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1. The estimations shows that the Russian GDP is main drive factor of the Belarusian exports.
2. However, real exchange rate also matters at the Russian market
3. Relationship in labor productivities is one more factor that determines competitiveness of the Belarusian exporters at the Russian market

## Russian economy and demand for Belarusian exports (2)

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In 2009, two main tendencies at the Russian commodities markets will take place:

- ❑ Contraction (or at least huge deceleration of growth) of the market volumes.
- ❑ Reallocation of the market segments between one commodity group for the benefit of the cheaper segments. I.e. the price might be more serious factor of competitiveness during the period of recession.

## Russian economy and demand for Belarusian exports (3)

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The 1<sup>st</sup> tendency will deteriorate the competitive positions of all producers at the Russian markets. However, the 2<sup>nd</sup> tendency might be beneficial for producers of the lower segments of the market.

Belarus may gain due to the 2<sup>nd</sup> tendency, but the 1<sup>st</sup> tendency is much stronger.

The relationship between these tendencies and competitiveness of the Belarusian producers will highly depend on Russian's economy growth rate (according to the forecasts it might be among -2.0 down to -5.0% yoy)

## Strategic threats and opportunities (1)

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1. Privatization and rapid restructuring during the crisis may be questionable from the point of view of short-term results, but may give a strong positive long-term benefit.
2. The balance of external trade seems to be an important goal for a long-term.
3. However, restructuring of the energy industry and increasing efficiency of the energy consumption may determine a substantial limitation of the raw imports.

## Strategic threats and opportunities (2)

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4. Changing the monetary policy regime may return the trust to the NBB by the economic agents. Further it will lead to the decrease of dollarization and more trust to the Belarusian banking system.
5. While new competitive advantages in external trade require a long period, Belarus may consider formation of new relations in world financial system as the major opportunity, trying to concentrate financial flows between developed world and Russia after the reform of the world financial system. For these, new Regulations in this sphere are to be adopted in Belarus in advance in comparison to neighboring countries.