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Macroeconomic environment and policy dilemmas

2015: a turning point for macroeconomic policy mix, but roughly no changes in respect to waning fundamentals

Before 2015 r.	2015-2016
Direct stimulation of consumer expenses (through wage policy)	'Directed' balance of wages and productivity
Expanding directed lending, i.e. stimulating capital expenditures	Shrinking directed lending
Relatively soft monetary policy	Relatively tight monetary policy
Pegged exchange rate	Floating exchange rate

Some gains in price and financial stability vs. stagnation and recession is a reasonable outcome

Before 2015 г.	2015-2016
High external deficit	CA deficit under 3% of GDP
High inflation	Lowering inflation rate
Steadily overestimated exchange rate	Actual XR coincides with the equilibrium one
≈ Full employment	<u>Growing unemployment</u>
GDP growth (although lowering)	<u>Stagnation and recession</u>

But even this relative stabilization is fragile: old challenges were substituted by new ones

- Weak environment of long-term growth → low returns on capital → depressed capital investments
- Inflation expectations, dollarization, low international reserves → financial fragility, high actual interest rates, poor maneuverability for monetary policy
- High debt vs. lowering output → high debt burden → deteriorating quality of debts, NPL growth

Summary

- Changes in policy mix does not mean changes in the model
- Short-term view: Old model + new policies = recession + gains in price and financial stability
- Medium-term view: Old model + new policies =
 - a) stagnation + financial fragility (optimistic)
 - b) self-maintained recession + financial turmoil