

ASSESSMENT OF THE MAIN FINANCIAL AND ECONOMIC FACTORS AFFECTING THE INVESTMENT CLIMATE OF THE REPUBLIC OF BELARUS

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ОЦЕНКА ОСНОВНЫХ ФИНАНСОВО-ЭКОНОМИЧЕСКИХ ФАКТОРОВ, ОКАЗЫВАЮЩИХ ВЛИЯНИЕ НА ИНВЕСТИЦИОННЫЙ КЛИМАТ РЕСПУБЛИКИ БЕЛАРУСЬ

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For the Republic of Belarus, as an active participant in international economic relations, attracting foreign investment is a fundamental component of the state's foreign economic policy. The degree of competitiveness of a country in the capital, labor, and innovation markets largely depends on its investment attractiveness. For this reason, a comprehensive analysis of the investment climate is very important when making a final decision on the implementation of capital contributions, both for internal and external investors. The assessment methodologies used in international practice are very diverse, however, as a rule, they do not fully take into account the peculiarities of transition economies. The article analyzes a group of financial and economic factors that influence the investment climate, taking into account the specifics of the conditions for the development of Belarusian economic system with focusing on the rates and directions of changes in indicators. Within the framework of the study, the following were examined: GDP dynamics (including per capita); changes in the value of foreign debt; inflation rate; refinancing rate; preferential tax treatments; degree of stability of the national currency; level and features of monopolism in the country; market capacity; cost of skilled labor. The analysis made it possible: to determine the rate of change and main trends in the development of key economic indicators; to group them by areas of influence on the investment climate of the country; to identify bottlenecks that require special attention of investors when making decisions on capital injections. The results obtained make it possible to form an idea of the specifics of doing business in Belarus.

Key words: investment climate, GDP, external debt, inflation, refinancing rate, tax treatment, monopoly, market capacity.

Для Республики Беларусь, как активного участника международных экономических отношений, привлечение иностранных инвестиций является основополагающей составляющей внешнеэкономической политики государства. От инвестиционной привлекательности страны во многом зависит степень её конкурентоспособности на рынках капитала, трудовых ресурсов и инноваций. По этой причине комплексный анализ инвестиционного климата очень важен при принятии окончательного решения об осуществлении капитальных вложений, как для внутренних, так и для внешних инвесторов. Применяемые в международной практике методики оценки весьма разнообразны, однако, как правило, не в полной мере учитывают особенности присущие странам с переходной экономикой. В статье проведен анализ группы финансовых и экономических факторов, оказывающих влияние на инвестиционный климат, с учетом специфики условий развития белорусской хозяйственной системы и акцентом на темпах и направлениях изменения показателей. В рамках исследования были изучены: динамика ВВП (в том числе и на душу населения); изменение стоимости внешнего долга; уровень инфляции; ставка рефинансирования; существующие льготные налоговые режимы; степень стабильности национальной валюты; уровень и особенности монополизма в стране; емкость рынка; стоимость квалифицированной рабочей силы. Проведенный анализ позволил: определить скорость и основные тенденции развития ключевых экономических индикаторов; сгруппировать их по направлениям влияния на инвестиционный климат страны; выявить узкие места, требующие особого внимания инвесторов при принятии решений о вложении капитала. Полученные результаты дают возможность сформировать представление об особенностях ведения бизнеса в Беларуси.

Ключевые слова: инвестиционный климат, ВВП, внешний долг, инфляция, ставка рефинансирования, налоговый режим, монополизм, емкость рынка.

Introduction

In present-day conditions, the effective development of any economy is possible only with its constant saturation with investments. International capital rushes to the places where the implementation of investment projects provides a greater economic return. The country's ability to attract foreign capital is largely determined by the current investment climate.

According to our research, most definitions come down to the fact that the investment climate is a certain environment in which investment activities are carried out. This environment characterized by a set of various factors. Understanding the essence of the investment climate requires an analysis and classification of the factors under the influence of which it develops [7, 14, 15, 28, 30].

It should be noted that the investment climate is not a strictly fixed constant. It is dynamic and capable of changing both for the better and for the worse. This is the reason why, a comprehensive analysis of the investment climate is very important when making the final decision on the injection of capital, both for domestic and foreign investors. By now many methods for assessing the investment climate of countries and regions have been developed. Most of them are based on research from rating agencies, business schools, scientific and research institutions. The existing approaches differ in the number and composition of the ana-

lyzed indicators, methods for determining their qualitative and quantitative characteristics, ranges of assessment, depth of research, etc. [1, 16, 18, 20, 23].

Economic and financial forces are the most numerous, varied and important in investment climate analysis. We are going to focus on those that have the most significant impact on the economic development of the country.

Main part

GDP dynamics (including per capita)

Gross domestic product (GDP), including GDP per capita, is one of the most common indicators used to track the state of the national economy. It is perhaps the most closely-watched and important economic indicator for both economists and investors [32].

In a market economy, GDP growth indicates an increase in production volumes and, accordingly, sales of goods and services, which leads to improving the welfare of the state, the standard of living of the population, and therefore purchasing power. From the investor's point of view, the positive dynamics of GDP is regarded as a favorable trend, despite the fact that in the long term it may lead to an increase in inflation and an increase in the interest rate.

Throughout the duration of last few years is in evidence a positive trend in GDP and GDP per capita in Belarus. After a steep fall in 2016 because of the devaluation of the national currency, at the end of 2019, these indicators increased by 32 and 33.5 %, respectively (Tab. 1).

Table 1. Dynamics of GDP and GDP per capita in Belarus in 2015–2019

Indicators	Years					2019/2015 [%]	2019/2016 [%]
	2015	2016	2017	2018	2019		
GDP bn. USD	56,5	47,8	54,4	59,7	63,1	111,7	132,0
GDP per capita thou. USD	5,9	5,0	5,8	6,3	6,7	112,7	133,5

Source: prepared by the author based on: [2, 3].

In our opinion, in the current economic conditions of the Republic of Belarus, this indicator is not able to fully perform assigned functions.

One of the reasons for this situation is the extremely high concentration of export-import flows in a small group of countries. The 5 largest foreign partners account for more than 70 % of the total volume of Belarusian foreign trade (about 48 % the Russian Federation). Thus, all other trade relations with about 195 countries cover less than 30 % of the republic's foreign trade turnover [8, 9]. In light of the fact that more than half of the products are sold for export, even minor fluctuation in the markets of the main trading partners can have a very significant impact on the volume and efficiency of sales of Belarusian-made goods. As an example, restrictions on the import of meat and dairy products from the side of Russian Federation can be cited.

The goods remaining at stock do not increase the welfare of the state in any way and do not raise the standard of living. This should be taken into account by investors.

External debt

The historical attitude towards external debt can be described as negative rather than positive. On the other hand, one should not forget that foreign investment – a powerful engine of economic growth, is also included in the amount of debt.

The data of the National Bank of the Republic of Belarus show an upward trend in the value of gross external debt in the Republic of Belarus. This is indicated by the positive slope of the trend line (Fig. 1). In the last year alone, it has increased by 3.65 %.

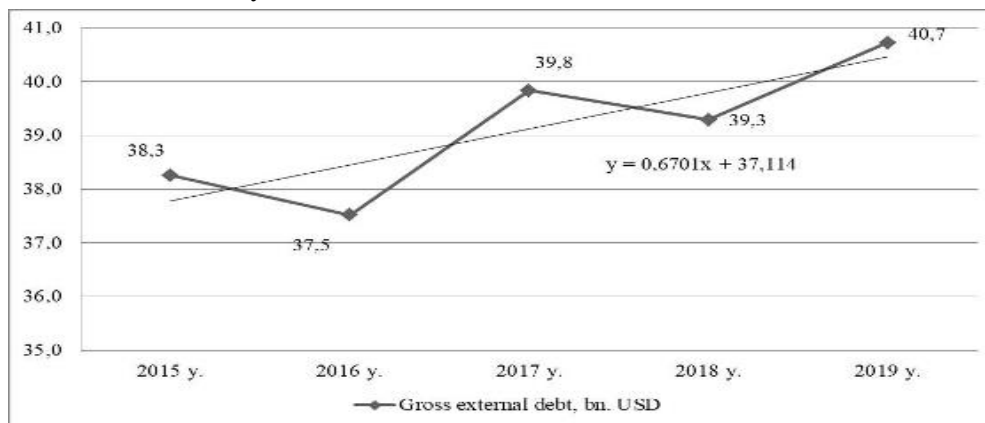


Fig. 1. Gross external debt in Belarus in 2015–2019, bn. USD

Source: prepared by the author based on: [11]

According to the methodology of the International Monetary Fund, a distinction is made between gross and public external debt. In the course of this approach, the obligations of the state are separated from the obligations of other economic entities. Whether this concept is appropriate for Belarus remains a matter of debate. Because of the high share of state ownership, the vast majority of the debts of business entities directly affect the financial situation of the country.

It should be noted that during the entire analyzed period, the gross foreign debt exceeded the mark of 60 % of the country's GDP, with the largest observation of 78.5 % in 2016. This dynamic shows a high level of state dependence on external sources of financing.

Inflationary development

High inflation is a negative phenomenon in the development of the economic system. Uncertainty about future prices complicates long-term planning for businesses, declines business activity, reduces production volumes and the number of workers.

However, the complete absence of inflation or deflation is also dangerous for the economy. When the prices of goods do not increase or decrease, consumers begin to postpone purchases, hoping to buy the product even cheaper over time. As a result, production receives less financial resources, which leads to its reduction [12].

Over the past decade, various types of inflation have been observed in Belarus. As an example, in 2011, the economy showed a galloping inflation rate of 109 %. The statistics of the following years show a downward trend. Since 2015, the rate of inflation in the Republic of Belarus has decreased by 7.34 percentage points and amounted to 4.63 %, which is almost in line with its normal level (Fig. 2).

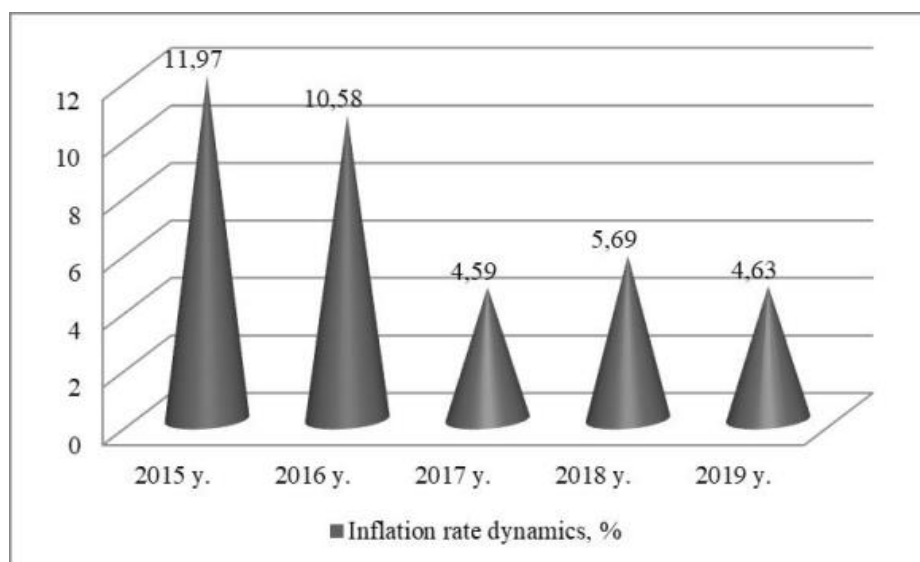


Fig. 2. Inflation rate dynamics in Belarus in 2015–2019, %

Source: prepared by the author based on: [13]

When assessing the investment climate, it is not the absence of inflation that should be considered positive, but price stability, implying a moderate rise in consumer prices. In recent years, the Belarusian market has been close to this kind of stability.

Refinancing rate dynamics

Refinancing interest rate of The National Bank is a macroeconomic indicator reflects the cost or availability of financial resources in a country. It is a certain benchmark for investors, showing the expectations of the central bank regarding inflation, the dynamics of the exchange rate of the national currency, trends in the credit and monetary market, as well as the general macroeconomic state of the economy.

In the history of sovereign Belarus, the maximum value of the refinancing rate was set in 1994 at 480 % per annum. In the last decade, this indicator reached its critical value during the 2011 crisis. Due to the galloping inflation, the National Bank made a decision to set the interest rate at 45 %. But in February 2012, the rate was reduced by 2 percentage points and then continued to fall.

In the period from 2015 to 2019, there is a clear, without hesitation, downward trend. During these five years, the National Bank has reduced the rate a total of sixteen times. From July 1, 2020, the refinancing rate in the Republic of Belarus is at the level of 7.75 % [22]. This is higher than the average European indicators, but the dynamics in recent years inspires certain optimism, which has a positive effect on the investment climate.

Stability of the national currency

To regulate the exchange rate, the National Bank uses a currency basket consisting of the dollar, the euro and the Russian ruble, where the latter has the largest specific weight. Thus, the main reference point is the value of the currency basket, and within it, the rates of these currencies are determined through their mutual cross-rates.

Throughout the history of the existence of the Belarusian ruble, we note its weakening relative to the currencies included in the currency basket. In the period from 2015 to 2020, its positions weakened by more than 50 % against the dollar and the euro and by 30 % against the Russian ruble. In a single 2020, the national currency fell in price against the basket (USD / EUR / RUB) by 16, 18 and 4 %, respectively (Table 2).

Table 2. Dynamics of changes in national currency rates in Belarus in 2015–2020

Indicators	Years						2020/2015 [%]	2020/2019 [%]
	2015	2016	2017	2018	2019	2020		
Exchange rate shift BYN/USD	1,59	1,99	1,93	2,04	2,09	2,43	152,8	116,3
Exchange rate shift BYN/EUR	1,76	2,2	2,18	2,41	2,34	2,77	157,4	118,4
Exchange rate shift BYN/100 RUB	2,6	2,97	3,31	3,25	3,23	3,37	129,6	104,3

Source: prepared by the author based on: [25].

*Adjusted for denomination

In order to fully assess what is happening with the Belarusian ruble, a longer period should be considered. We will do this using the example of the American dollar. At the end of 2005, the average dollar exchange rate was at the level of 2154 BYN/USD. Taking into account the denomination of 2016, at current prices, this will be about 0,22 BYN/USD. Calculations show that over 15 years, the national currency of the Republic of Belarus has fallen in price by more than 11 times.

At present, due to high devaluation expectations against the background of the deterioration of the foreign policy situation around Belarus related to sanctions and emerging financial problems, potential investors should closely monitor changes in exchange rates.

Tax treatment

The legislation of the Republic of Belarus provides for special tax regimes, with the help of which the owners of foreign capital can optimize the taxation and planning processes. Investors can take advantage of business benefits under the following conditions:

- ✓ conclusion of an investment agreement;
- ✓ carrying on business on the territory of medium-sized, small urban settlements, rural areas;
- ✓ be a resident of the Hi-Tech Park (HTP);
- ✓ be a resident of the Industrial Park;
- ✓ be a resident in one of free economic zones (FEZ) or special economic zone Bramino-Orsha [21].

Most of these options provide for a reduction in tax rates, deferrals on the payment of various charges, exemption from payment of import customs duties etc. The availability of such opportunities certainly has a positive effect on the country's investment climate.

The level of monopoly in the economy

The Republic of Belarus, like many other States, has state monopoly in those areas that provide to the institutions of power and control functions related to defense and security of the state. There are also a number of natural monopolies that have developed due to the lack of competition by virtue of technological features of production and the lack of substitute goods.

The Ministry of Antimonopoly Regulation and Trade (MART) was established and operates in order to control and prevent monopolies in the country. As part of its activities, MART, since 1994, has been forming the "State Register of Natural Monopolies" in order to track and control emerging monopolist companies. As of January 4, 2021, it had 182 enterprises, most of which were state-owned [19].

State-owned enterprises and enterprises with a share of state ownership, that is, controlled by the state, play a huge role in the Belarusian economy. In 2019, they accounted for about 65 % of all industrial and more than 76 % of agricultural production [10, 24].

The facts show that a kind of unique type of monopoly economy has developed in the Republic of Belarus, which significantly differs from the classical market options. Monopolism in the conditions of Belarus is similar to the planning and directive system, that is, in fact, a modification of departmental monopolism, the nature of which, inherently, is not related to the size of enterprises and their number. It follows to the exclusive right of the state to administer in the person of the relevant functional departments and line ministries [4].

The above evidence suggests that when planning their activities on the territory of the Republic of Belarus, a potential investor should take into account that almost any business activity will be associated with high competition from state-owned enterprises according to the rules established by the state.

Market capacity

The Republic of Belarus is a small economy. This suggests that with a population of 9.4 million people and an average per capita income of about 6,5 thou. USD the capacity of the domestic market is not significant [24].

However, when analyzing this indicator, it is necessary to take into account the fact that since 2015 the country is a member of the Eurasian Economic Union (EAEU). The EAEU provides for free movement of goods, services, capital and labor as well as uniform rules for technical regulation, general sanitary, veterinary and phytosanitary standards [6].

Thus, by launching a business on the territory of the Republic of Belarus, the investor gets direct access to the single market of the 5 countries of the Eurasian Economic Union (the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation) with a population of more than 184 million people, the total GDP of 1967 billion. USD and huge raw materials potential [6].

The cost of skilled labor

One of the competitive advantages of the Republic of Belarus is the provision of highly qualified and at the same time inexpensive labor resources.

The country has achieved almost 100% literacy of citizens over the age of 10. According to the 2019 census, more than 24 % of citizens have higher education. If we narrow down the age group, excluding young people under 24, then the share of Belarusians with higher education will increase to 29.7 %, which is a very high indicator [27].

Since 2015, the minimum and nominal accrued average monthly salary of employees in terms of euros has increased by more than 22 and 13 %, respectively, and amounted to 467.1 and 141 EUR in equivalent at the end of 2019 (Fig. 3).

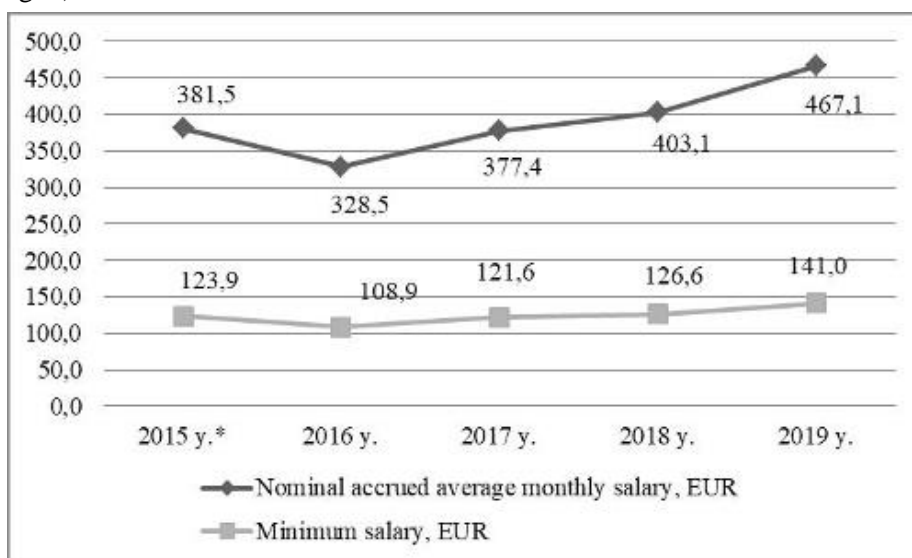


Fig. 3. Dynamics of changes in minimum and nominal accrued average monthly salary in Belarus
Source: prepared by the author based on: [24, 25]

Despite the tendency to rise in price, the cost of labor resources in Belarus remains low in comparison with other countries of Central and Eastern Europe. In Poland, for instance, in 2019, the minimum wage amounted to 2,250 PLN, it is about 522 EUR; in Latvia – 430 EUR; Lithuania – 555 EUR [17, 31].

As can be seen, when entering the Belarusian market, an investor gains access to qualified human capital at a reasonable price. Also, we should not forget that due to the absence of barriers, other than geographical ones, on the way of labor resources movement within the framework of the Eurasian Economic Union, the opportunities for recruiting business employees are significantly expanding.

The performed analysis allows us to divide financial and economic factors into two groups depending on the direction of their influence on the investment climate:

✓ Positive factors: GDP growth (including per capita); disinflation; reduction of the refinancing rate; preferential tax treatment; access to the EAEU market; low cost of labor resource.

✓ Negative factors: growing external debt; depreciation and frequent denominations of the national currency; monopoly of state power.

This classification shows the overall picture and allows to determine the direction of the impact of factors, but does not give an idea (information) about the strength of the impact of specific indicators or their significance for the owner of capital.

Conclusion

The research allowed us to establish that the investment climate of the Republic of Belarus is positively influenced by: growing GDP, declining inflation and refinancing rates; availability of special tax regimes; the country's membership in the EAEU, which gives access to the union market; the availability of inexpensive and high-quality labor. At the same time, when making a decision about capital contributions in the Belarusian economy, investors should keep in mind the high dependence of the republic on external financial sources, the instability of the national currency, as well as the existence of a specific form of state monopoly. These negative factors should become a guideline in the development of mechanisms for further increasing the investment attractiveness of the Republic of Belarus for foreign capital.

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