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## **ECONOMIC GROWTH AND INVESTMENTS: STATE AND PROSPECTS DEVELOPMENT OF THE REPUBLIC OF BELARUS**

The approval of the Program of Socio-Economic Development of the Republic of Belarus for 2006-2010 and the active work for its realization induced, on the one hand, a common support of its ideas, priorities, goals and tasks, and, on the other hand – this Program initiated afresh a discussion of key problems of the country's economic and social development in the near future and in the distant prospect. In the given Program the ambitious tasks, related to the growth rate of GDP, of real sector of economy, of fixed investment, of housing and of income of the population, are set up. The task is put to achieve 40% of the EU countries' GDP level of development up to 2010. Such rate of development provides the country's GDP duplication every 10 years. Only countries of South-East Asia (Japan, South Korea, China a. o.) were able to do it.

The international practice confirms, that the advanced countries created their economic power thanks to the attraction and efficient use of foreign capital, implementation of qualitatively new resource-saving technologies (including computer programs), professional improvement of personnel, organization of production improvement, sales of know-how on the world market, that assured considerably higher gains, than agrarian, mining and processing sectors of economy.

What economic potential has our country in comparison with other states?

The data of the Table 1 show the following:

- first – in XXI century the world entered into the era, characterized by the oil and natural gas deficit;
- second – chronic shortage of these energy resources involves a price boom for them. So, in 2005, the oil price increased up to 50 USA dollars for the barrel, in 2006 – to 70 USA dollars (in 1998 it was 10 USA dollars). The further price growth is forecasted. The time, when the consumers-countries have a cheap oil, oil products and natural gas, passed irreversibly, and this will have a negative influence on the production competitiveness and on the countries' economy;

Table 1. Per capita reserves of principal kinds of natural resources

Country, region	Oil with condensate, t	Natural gas, ths m <sup>3</sup>	Iron ore, t	Coal, t	Arable land, ha	Fresh water, ths m <sup>3</sup>	Forests, ha
Belarus	6,55	–	14,30	3,60**	0,56	33,80*	0,94
Russia	141,58	32,20	1364,50	388,70	0,86	28,00	6,11
Europe	4,06	1,80	86,40	52,00	0,29	4,90	0,23
Asia	27,09	17,00	131,30	8,50	0,13	3,70	0,10
Africa	13,17	11,90	167,30	28,30	0,22	4,80	0,55
North America	34,16	28,00	1724,80	94,20	0,65	14,60	1,31
South and Central America	26,80	13,00	49,60	42,00	1,18	40,70	2,98
Australia and Oceania	19,00	20,90	1393,30	624,70	2,26	30,83	2,23
A verage in the world	26,10	23,50	244,60	36,10	0,24	7,42	0,96

\* Subterranean fresh water.

\*\* Brown coal.

Source: „The RAS Investitsii v Rossii”, 2005, N.10, p. 15-18 (calculations on Belarus are made by authors).

- third – unless new oil and gas fields or substituting them raw materials are involved (for what enormous investments are required), the world countries will encounter with an acute chronic crisis;
- fourth – for a number of countries a global energy security assurance during the last 15 years has been badly complicated by apolitical instability problem in oil-extraction regions as well as by acute conflicts, which must be taken into consideration when carrying out long- and medium-term forecasts for the economies development.

Now let us speak about the investment market of Belarus.

The calculations show, that for an expanded reproduction it is necessary to increase a fixed capital investment in a forecast horizon at least in 5,5 times, and for the purpose to achieve for our population a standard of life of advanced foreign countries – at least in 2025 times. That is in the case, if we want to maintain the current economy structure without any measures for its restructuring.

For this task solution we need financial resources. Are they available? As for investment financing sources, the following structure has been turned out recently. Own funds of an enterprise make 44%, of budget – 26%, of bank credits – 15%, of funds of population – 8%, of foreign investment – 2%, other sources – 5%.

Thus, a significant share of the total investment volume is own funds of an enterprise. Therefore, it will be necessary to examine a financial position of enterprises of real sector of economy.

In 2001-2005, in spite of altotal economic growth, budget and self-supporting branches have been developed under extremely difficult conditions. On the one hand, the volume of money on organizations' accounts increased, the share of non-cash payments significantly decreased, the exporters' currency earnings' amount increased. On the other hand, in 1995-2004, the financial position of many enterprises has deteriorated, a high specific gravity of unprofitable organizations (15-35%) remained intact. In 2005, the number of unprofitable enterprises in the first half of the year was 20,3%, while to the end of the year this number reduced up to 3,5% of their total one. It can be explained by the fact, that all unprofitable enterprises have been allowed to direct the fixed assets' reevaluation fund for losses' compensation. But this action couldn't save the situation, and already in the first half of 2006, 1640 enterprises were unprofitable (or 14,8% of their total number).

A chronic deficit of financial resources of domestic producers, liabilities' growth, accumulation of a stale debt, exceeding financial resources in organizations of the real sector of economy, are registered. During a number of years, one can see a chronic excess of the stale credit indebtedness over the debit indebtedness. In 2003-2006, the real sector of economy couldn't transform the situation of those days into a positive one.

In 2005, a coefficient of business activity of organizations' assets, determined as a ratio of products sale proceeds (goods, works, services) and of the assets' value, and reflecting a turnover rate of all assets, increased in comparison with 2000 in 1,9 times and made 76,2%, testifying its use's efficiency growth. Lately, one can observe a relative stabilization of the organizations' financial position. From 2002, the level of profitability of sold products, works and services began to grow, that can be characterized by the following data (Table 2).

A low profitability level of enterprises' assets directly reflects the growth of production costs. The state of the domestic economy reproduction basis, in particular: high degree of wear and moral „ageing” of capital assets, high production power consumption, depletion of productive capacity reserves a.o., requires additional expenses for fixed assets' rebuilding, reconstruction, modernization and technical reequipment. For this reason, from 2000, the profitability of enterprises' assets decreases by 0,3-0,6% annually.

The positive resolution of financial problems and the increase of the national economy's competitiveness are an urgent task of new five-years of 2006-2010.

For the working out of the strategy of investment attraction to the Republic's economy for the current period and for prospects, it is necessary to take into account a financial position of an organization as well as of national economy branches.

The most important problem of national economy branches is the achievement of the economy's financial stability and of a sustainable money circulation. The way

of this problem's solution runs through the organizations' financial recovery and the stabilization of a general economic situation as well as of a money circulation as a whole.

Table 2. Profitability of sold products, works and services by principal branches of economy, in %

	1992	1995	1998	1999	2000	2001	2002	2003	2004	2005
Total	22,1	9,9	10,9	15,2	13,1	7,8	8,5	9,1	13,5	13,5
Including: Industry	29,1	10,1	14,5	17,1	15,8	10,9	10,5	12,0	15,4	15,4
Agriculture	16,7	15,4	8,0	10,4	4,4	-9,2	-4,6	-2,9	6,2	8,1
Transport	17,5	26,5	13,4	19,9	23,7	15,0	16,7	16,6	19,0	16,3
Communications	14,3	11,1	11,4	12,5	23,6	12,3	17,0	13,3	26,9	37,7
Building	14,5	11,3	8,3	11,9	12,3	8,3	8,7	9,7	10,9	10,6
Trade and public catering	17,2	-0,1	16,7	16,6	11,3	5,2	5,7	4,9	11,3	11,3
Material and technical supply and sale	8,4	5,8	-24,9	21,4	19,1	6,1	13,7	9,4	17,9	20,0
Housing and communal facilities	-8,7	-3,9	-10,8	-6,4	-11,4	-9,0	-7,9	-6,2	2,7	2,4

Source: Series of reports „Socio-Economic in the Republic of Belarus” of the Ministry of Statistics and Analysis of the Republic of Belarus. Statistical collection „Finances of the Republic of Belarus”, 2002.

Finances of public and banking sectors of economy are in interdependency on finances of the real sector of economy. That's why, a rapid growth of the country's economy is related to the foreign direct investment (FDI) inflow. The FDI level in the world increased from 30 billions of USA dollars in 1975 to 648 billions of USA dollars in 2004 or more than in 21 times. Principal donors are industrial countries (their part is more than 84% of the FDI export), but they are also recipients of a significant part of those funds too. The majority of world countries use the FDI as an investment activity intensification instrument, consolidating the sustainable economic growth basis.

The Republic of Belarus at the current stage of its development holds to the principle of a maximally complete and efficient use of the domestic investments as well as of the external ones for the purpose of the high-technology productions' creation. It is clear, that developed countries are not interested in the enlargement of the circle of countries with developed and competitive economies. There are many cases of purchasing of a stable enterprise by the investor with a unique purpose to make

it bankrupt and so to remove a competitor from the market. Foreign investors are interested only in a high profit. Belarus is not aimed to a massive inflow of foreign investment at the expenses of a large-scale privatization of the public property.

Taking into consideration particular features of a current competitive environment, investment inflows to our country are formed in international investment markets.

In the Republic of Belarus a favorable climate is formed as a whole, as well as a legal basis for foreign investment attraction. In Belarus more than 3500 organizations are working with the participation of investors from 89 countries of the world, including joint companies, created with Russia – 730, USA – 523, Germany – 375, Poland – 350, Lithuania – 255.

The investment policy of the Republic of Belarus is determined by the National Program of investment Attraction in the economy of the Republic of Belarus for the period up to 2010. It is directed to the mobilization, first of all, of domestic resources and, secondly, to the maximally possible attraction of foreign investment for the modernization of strategically important branches and productions for the purpose of creation of resources- and energy-saving technologies.

The foreign investment attraction to the country's economy remains one of the today's most urgent problems. The foreign investment can be used as a sufficiently strong catalyst in the investment process promotion. It will add to this process, thanks to new technologies, more up-to-date methods of production's organization and management, existing in developed countries of the world, and create optimal conditions for the growth of volume of Belarusian exports to foreign markets. A potential demand of the Belarusian economy for foreign investment for the period of 2002-2010 is assessed in 13 billions of USA dollars (30% of the total volume of investment). The Republic of Belarus can't ignore the contemporary world's realia, concerning globalization processes in the field of investment.

An active policy for promotion of foreign investment, attracted for the purpose of innovations, is required, as well as for creation of specific (concessionary) conditions for them. Problems of the appropriate legalization of the foreign capital activity at the Republic's territory must be resolved on a legislative level, as well as the inviolability and a free export of foreign capital and earnings from the country by nonresidents must be really guaranteed. We made an attempt to evaluate the socio-economic efficiency of the FDI.

The task was resolved with respect of two conditions:

1. It was necessary, from all volume of attracted foreign investment, to pick out a priori those, which are the most closely connected with a real sector of economy. For this reason, it was determined, how the chosen kind of foreign investment is related to principal indices. The given condition was respected in a very simple manner. From all volume of foreign investment there were picked out fixed investments or foreign direct investment (FDI) as a kind of investment, which really influences on

principal macroeconomic indices, much more than portfolio investment and other foreign investment;

2. The resolution of the set up task suggests a search of macroeconomic indices, closely connected with FDI volumes' indices and playing the role of singular markers, allowing to determine a socio-economic efficiency of FDI.

The correlations' availability analysis is made through the sampling of some sufficiently representative macroeconomic indices, characterizing the socio-economic situation of the over the period of 2000-2005.

For the purpose of unification and putting to a comparable state, the calculations of Pirson's correlation coefficient square ( $R_2$ ) have been made. Rates of growth of the index are compared with those of FDI volumes ( $I_{FDI}$ ) and those of the FDI per capita distribution ( $I_{c_{FDI}}$ ) with the use of lag up to 5 years (Table 3),

Table 3. Pirson's correlation coefficient square determination ( $R_2$ )

Indices correlating with $I_{FDI}$ and $I_{c_{FDI}}$	Positive correlation	$R_2 (I_{FDI} / I_{c_{FDI}})$
Socio-demographic (group 1)	Coefficient of natural population growth;	0,294/0,286
	Coefficient of migration growth;	0,96/0,93
	Number of crimes, committed by minors;	0,114/0,111
	Coefficient of child mortality	0,96/0,93
Economic	Gross regional per capita product;	0,85/0,83
	Volume of production of enterprises with the participation of foreign capital;	0,63/0,62
	Degree of wear of capital assets	0,08/0,08
Socio-economic	Actual final per capita consumption of households;	0,85/0,83
	Average per capita incomes of population;	0,788/0,768
	Unemployment rate	0,05/0,05

Source: Made by authors.

The choice of these social sphere indices is specified by the fact, that they reflect the most extreme characteristics of social and socio-economic setbacks, still existing in our republic. Our work indicates, that FDI growth rates changes don't sufficiently influence on a social sphere, that it will be possible to improve the above-mentioned indices. In fact, it is noticed a certain isolation of the economic activity with the participation of foreign capital in the Republic in 2000-2005 relatively the social sphere, i.e. the economic upturn is due to domestic and foreign investors' resources, but foreign investors' funds don't make a significant influence on the quality of life of the population.

This conclusion is also confirmed by the fact, that, in spite of the FDI volume growth in 2000-2005, there is no increase in natural and migration growth of population indices in the Republic.

This, apparently, due to the fact, that FDI is attracted in insufficient volumes, directed, in most cases, to short-term projects for the purpose of obtaining a quick and significant profit instead of the modernization of existing productions and the creation of new ones with high technologies. The same thing is in the case of the households' final consumption and of the unemployment rate. The above-mentioned indices' dynamics is not connected with that of the FDI growth.

The carried out study indicates a certain isolation of the FDI from economic realities in Republic's regions, from socio-economic sphere demands. The cause of this situation is not clear: whether it is due to insufficient volumes of FDI, which can't influence on the economic situation in regions of the Republic, or FDI are allocated in branches of economy, not closely connected with the social sphere. In any case, the necessity of the obligatory regulative state intervention into the optimal FDI direction to the social sphere is evident.

To sum up the results of the work, one can state, that we couldn't define the possibility of attraction selected indices for the purpose of the socio-economic efficiency determination. However, we managed to show the isolation of the economic activity of foreign investors (even those, who is engaged in the most useful activity for the Belarusian economy – investment in capital assets of productions, located at the territory of the Republic of Belarus) from real needs of the social sphere on a regional level. It suggests a possible well-funded formation of the necessity to attract the state for the purpose of investment activity regulation, creation of necessary conditions, under which the given investment activity could be really interrelated with the social sphere and socially oriented.

## **WZROST GOSPODARCZY I UWARUNKOWANIA: STAN I PERSPEKTYWY ROZWOJU REPUBLIKI BIAŁORUSI**

W artykule są rozważane uwarunkowania rozwoju społeczno-gospodarczego Republiki Białorusi w latach 2006-2010. Autor przywiązuje szczególną wagę do analizy programu inwestycyjnego, uznając, że rynek inwestycyjny Białorusi w znacznym stopniu zostanie zdeterminowany przyływem bezpośrednich inwestycji zagranicznych. Z tego powodu głównym zagadnieniem analizowanym przez autora jest ocena efektywności wykorzystania bezpośrednich inwestycji zagranicznych oraz jej wpływ na podniesienie stopy wzrostu gospodarki Białorusi.