

# Refinancing rate falling, yet without sharp fluctuations

National Bank adopts decision anticipated by many since last December, lowering the refinancing rate

By Valery Rushevsky

The refinancing rate currently stands at 28.5 percent, having dropped from 30 percent (as it stood for six months). The aim is to achieve macroeconomic balance and slow inflation but what else may the year bring in this vein?

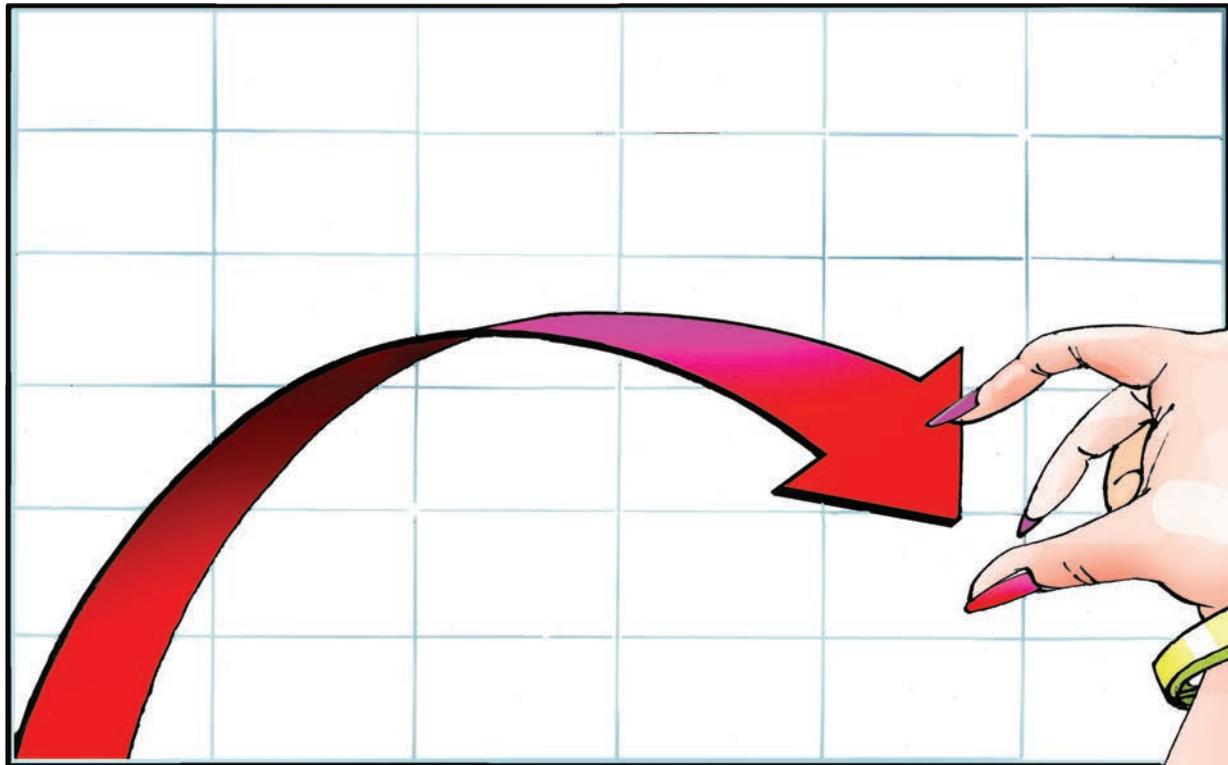
## Less is more?

The economic collisions of previous years have seriously influenced the dynamics of the refinancing rate in Belarus. For example, in 2008, the average figure stood at a very modest 10.35 percent; it rose to 11.82 percent in 2010 and then reached 21.57 percent in 2011. By early 2011, it had been reduced to 10.5 percent but then shot up to a frightening 45 percent by the end of the year.

Last year, the National Bank reduced the refinancing rate eight times and achieved 30 percent by September 2012; this year, 15 percent is the target for the Basic Areas of Monetary and Credit Policy.

The country's commercial banks use the refinancing rate in setting their own interest rates for loans to the private sector; the lower the refinancing rate, the lower the interest rates offered on loans to enterprises, organisations and the general public. If the refinancing rate is low, it's easier to borrow money from banks and the volume of loans rises. Money is then spent on modernisation and the purchase of raw materials, creating more manufacturing of goods for export. Meanwhile, public access to loans for buying goods and services helps fuel the economy.

"The current reduction in the refinancing rate, by 1.5 percent, will lead to a corresponding drop in rates on Rouble deposits and loans. In fact, interest rates may fall by even more than those for saving accounts. A month ago, the National Bank sent



a letter recommending that the margin be kept within 3 percent," explains financial analyst Vadim Iosub. "The National Bank is keen to avoid the situation seen in September-October 2012, when people transferred money from Rouble deposits into foreign deposits. Even with a reduction of 1.5 percent, interest rates on Rouble deposits remain far more attractive than those on foreign currency deposits."

## Zero decision

A number of states keep their refinancing rate close to zero: in the USA, the figure is just 0.25 percent; in Japan, it's 0.1 percent; and the Eurozone keeps it at a modest 0.75 percent. It doesn't guarantee a healthy economy of course. "If the refinanc-

ing rate is zero, the state is offering 'interest free' money to economic entities; it tends to be done when enterprises are experiencing real economic difficulties. Nations reduce their refinancing rate to stimulate the economy," notes financial expert Valery Polkhovsky. "A rate of 3-4 percent is considered to be healthy for the world's leading economies; it helps the central bank keep inflation at around 2 percent per annum and the refinancing rate is placed slightly higher. This is the ideal situation and what we'd term healthy."

## Searching for a compromise

Last year, Belarus faced the challenge of expanding production and increasing exports of goods,

to keep gold-and-currency reserves buoyant and strengthen the national currency. This aroused an acute need for affordable loans for the private sector.

However, the National Bank won't sharply reduce the refinancing rate, since this would lead to corresponding reduced interest rates on Belarusian Rouble loans and deposits, which could inspire people to place their savings in a foreign currency, creating a negative situation on the currency market.

## Trend to continue

On March 13th, the National Bank reduced the refinancing rate

by 1.5 percent. "Actually, the situation in February and the forecast for further reduced inflation makes us hope for a gradual reduction in the nominal value of the refinancing rate, while preserving its positive real level," notes the National Bank.

In February, inflation fell to 1.2 percent (against 3 percent in January). "January inflation was rather high but it may have been due to price rises instigated by the state. These prices rises and, accordingly, inflation were 'scheduled,'" comments Mr. Polkhovsky.

How will the refinancing rate behave in the months to come? Experts believe that Belarus needs to

keep to a strict monetary credit policy, keeping the cost of loans at least 3-5 percent above inflation. "In order to keep the refinancing rate at 13 percent we need to maintain inflation at 8-10 percent. However, definite pricing pressure exists, so it's not effectual to focus only on this," explains the analyst.

At the same time, cheaper loans are necessary for the development of the economy, so experts are confident that the trend of reducing the refinancing rate will continue.

## Fashionable for consumers and beneficial for domestic manufacturers

**Investment project — worth 1.5m Euros — to be implemented at Ivatsevichdrev JSC**

Within three years, it is planned to set up in-depth processing of furniture, with high gloss veneers on chipboard. The high value added element will ensure profitability and reflects current consumer demand for high gloss surfaces. The enterprise is confident of being able to sell its goods, produced at its Ruzhany and Brest furniture factories, and believes that local, regional customers will buy most of the stock.

## By train, by bus or by plane

By Mikhail Osokin

**Air transportation increases by more than 25 percent but 'terrestrial' options remain competitive**

According to the National Statistical Committee of Belarus, passenger air transport has risen in volume by 27 percent, while trains have increased their passengers by 1.5 percent and bus transportation has fallen in popularity by 3.5 percent. These figures are an impartial indicator of the recovery of the domestic economy and growing competition within the transport branch.

"High road transport competition has been observed previously," notes the Chairman of the Belarusian Association of Experts and Transport Surveyors, Yury Vazhnik. "It's been difficult for buses to compete with the railway, which offers competitive



Minsk National Airport

prices for passenger transportation. However, prices for railway tickets have risen slightly and air travel is now another viable option for long-dis-

tance journeys." Actually, the number of transit passengers flying through Belarus is constantly growing, while the National

Belavia Airline continues to promote special offers. For example, a flight to Sochi can be bought for as little as 146 Euros (Br1,600,000 — compared to Br1.6-1.8 million by train, which takes over two days). Belavia's Moscow-Minsk route costs as little as 77 Euros (Br860,000 — compared to Br720,000-Br1m by train, which rises to Br1.5-2m for a private compartment).

Bus and coach drivers have no need to worry, since bus journeys still account for the lion's share of passenger transportations: 94.5 percent. Of 122.5 million people transported in Belarus this January, 115.8 million took buses, as they remain the most 'all-pervading' and are competitively priced, compared to the railway. A night flight from Minsk to Moscow costs about Br335,000 at present, while the cheapest economy class coach journey by day costs Br380,000. It's great to have choice.