

Facing the economy

Bank loan availability determines business and, most especially, innovative activity

Banking legend Rothschild once said; 'Give me control of the credit of a nation, and I care not who makes the laws.' Of course, he was absolutely right, because controlling the country's money gives banks tremendous advantages and opportunities. Last year, organisations and enterprises across Belarus received a total of Br73.4 trillion in net profit; of this, 32 Belarusian banks claimed 5.4 trillion or 7.4 percent. As of last year, there were more than 126,000 organisations and the average net income of each Belarusian bank was almost 300 times that of a non-banking sphere enterprise. Banks can largely ignore rising prices for raw materials and energy, purchasing the latest sophisticated technological equipment and employing the best personnel across many spheres.

Such impressive results do not stem from bankers being so much more capable or hard-working than auto-mechanics or doctors; their success is borne from their monopoly control of the country's money, which allows them to claim income from excessive interest rates, despite loans being guaranteed reliably by collateral, bail guarantors, state guarantees and other fail-safe mechanisms. With



Fall in loan interest rates should drive forward economic modernisation

wise risk assessment, even in the crisis of 2011, when the national economy as a whole 'sunk', Belarusian banks increased their profit by almost 75 percent.

Of course, from time to time, the banking sector is called upon to aid social development, with wider aims. America's first Finance Minister, appointed in 1789, Mr. Hamilton, proposed a system of public (non-commercial) loans, to drive forward the economy. In his famous

report on public credit, he emphasised that this aimed to build the foundations of the future; rather than making short term profit, the banks needed to invest in the nation's economic development, supporting manufacturers' growth rather than acting as a parasite on their backs via high borrowing rates. Of course, the Bible prohibits profiteering from money lending, saying: 'Do not profit from your brother!' Today, not so much to

overcome the crisis, but rather in a transition to a new (sixth) technological order, the refinancing rate is dropping around the world: from 6 to 0.25 percent in the USA; in the EU, from 4 to 0.75; and in Japan, to just 0.1 percent. Of course, business development — especially that related to innovative activity — is largely determined by the availability of loans. Western companies with access to cheap money have unprecedented

ed competitive advantages in comparison with those from Belarus, Russia and Ukraine, where loans are expensive. In particular, last December, with the refinancing rate at 30 percent, the average full rate on new loans granted in Belarusian Roubles (with a 12 month repayment term) stood at 36.7 percent per annum. As domestic enterprises enjoy profitability of just 10-15 percent, the use of such loans is problematic, especially for financing

long-term modernisation projects.

We can't expect domestic enterprises to successfully modernise and achieve global competitiveness without creating conditions similar to those enjoyed by their competitors. The Russian President's advisor, academician Sergey Glaziev, explains, "Unless a scheme of long-term loans can be offered at low interest rates, our enterprises will remain uncompetitive. Today, in the West and East, there is no problem in enterprises gaining cheap money for long periods."

Despite agreeing that the refinancing rate should be lowered to 13-15 percent (with corresponding cheapening of loans), at a recent meeting of the Council of Ministers, Alexander Lukashenko demanded, "It's time for the banking system to face the economy!" He wishes to see loan rates reduced in all spheres — from buying consumer goods and housing to loans for domestic enterprises' modernisation. The result should be a wider range of desirable domestic products on our shelves, and a corresponding rise in export income.

By Valery Bainev, Doctor of Economics and a Professor of the Economics Faculty of the BSU

PET-bottles for European states

Belarus and Kazakhstan to invest about \$700m in petrochemical enterprise in Mogilev

Mogilevkhimvolokno JSC has been chosen as the site for constructing a new line to make terephthalic acid (using Kazakh paraxylene) and another to manufacture PET materials from terephthalic acid. "The first factory will cost about \$450m while the second will cost about \$250m," explains Belarus' Deputy Prime Minister, Mikhail Rusy, who co-chairs the Belarusian-Kazakh Commission for Co-operation.

Financing is now being sought, with Kazakh specialists arriving in April to determine a plan for step-by-step implementation. "As far as the second factory is concerned, it will be almost unrivalled worldwide, making powder for PET bottles and other goods which enjoy global demand. The venture has mutual benefits since Kazakhstan has paraxylene while Belarus is

interested in exporting goods made from this substance. Moreover, we have highly qualified specialists at Mogilevkhimvolokno and Belarus has an advantageous geographical position — close to potential sales markets. Naturally, we operate within the Single Economic Space, which makes the project very profitable," adds Mr. Rusy.

The Deputy Prime Minister believes that Belarus-Kazakhstan collaboration has advanced significantly, leading to mutual exchange of technologies and tighter manufacturing co-operation. "Without this, it's difficult to advance joint products on foreign markets," he asserts. He believes that the establishment of an enterprise to make BelAZ heavy-duty dump trucks (with a carrying capacity of 40 tonnes) in Kazakhstan will be another success story; Belarus will hand over all the documents Kazakhstan needs to make these vehicles and will provide technical support.

Minsk plant's successful marketing approaches

'Belarus' tractors assembled in Russia and sold successfully as part of Russian support programme for agricultural producers

Minsk Tractor Works believes that its interaction with Russian companies is helping Belarus-Russia collaboration more widely, since the enterprise takes part in so many co-operative programmes between our Belarusian and Russian regions.

MTZ's promotion of 'Belarus' tractors across Russia makes use of various marketing instruments. It has eight assembly facilities operating in Russia, with the number constantly growing. For example, joint ventures were set up last year in the Amur Region and in Saratov; pilot batches of tractors have already been assembled there.

Minsk Tractor Works has a well-developed commodity distribution network in Russia, and is encouraging



Tractors from MTZ assembly line find way to Russian regions

other Belarusian enterprises to make use of this avenue to promote goods. MTZ's trade houses are ever increasing sales volumes abroad and, last year, began assembly of Brest Electromechanical Plant sowing machinery in Yelabuga. These are being tested at a local farm and

will soon be made widely available, with the trade house offering a range of attachments for its 'Belarus' tractors, to further enhance competitiveness and exports to the Russian market.

In January-February 2013, around 5,000 ready-made tractors were dis-

patched to the Russian Federation; over half of MTZ export tractors are sold to Russia. Minsk Tractor Works is part of the Industry Ministry, producing over 60 models and modifications of tractors and machinery. Last year, it manufactured over 60,000 tractors.