



Kastryčnicki Ekanamičny Forum
Ураджай ідэяў дзеля ўстойлівага развіцця



Даследчы
цэнтр ІПМ



KEF-2016: Reforms for Inclusive Growth

November 3–4, 2016

On the verge of the new economic cycle – how to
set up for the failure, and how not to

Andrey Movchan, Senior Associate and Director of the Economic Policy
Program, Carnegie Moscow Center

On the verge of the new economic cycle – how to set up for failure and how not to

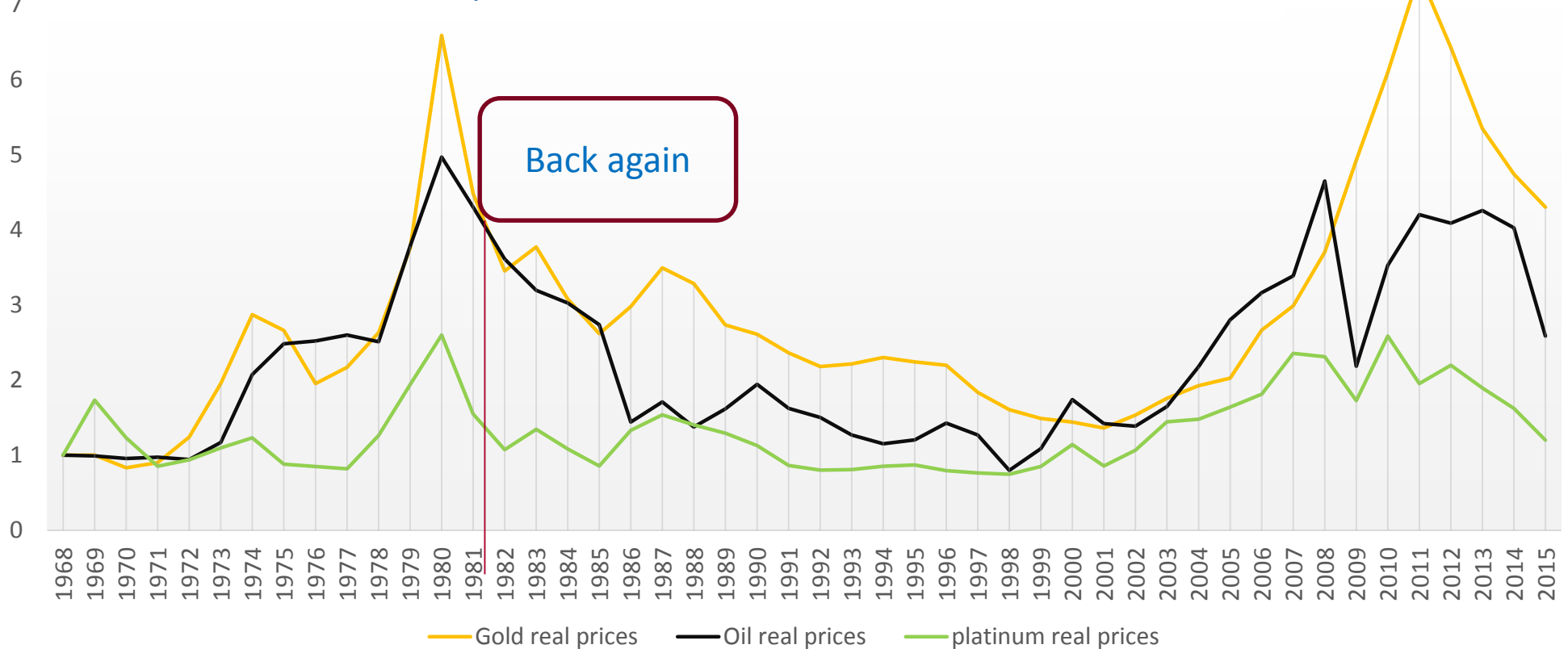
Andrey Movchan. 3/11/16.



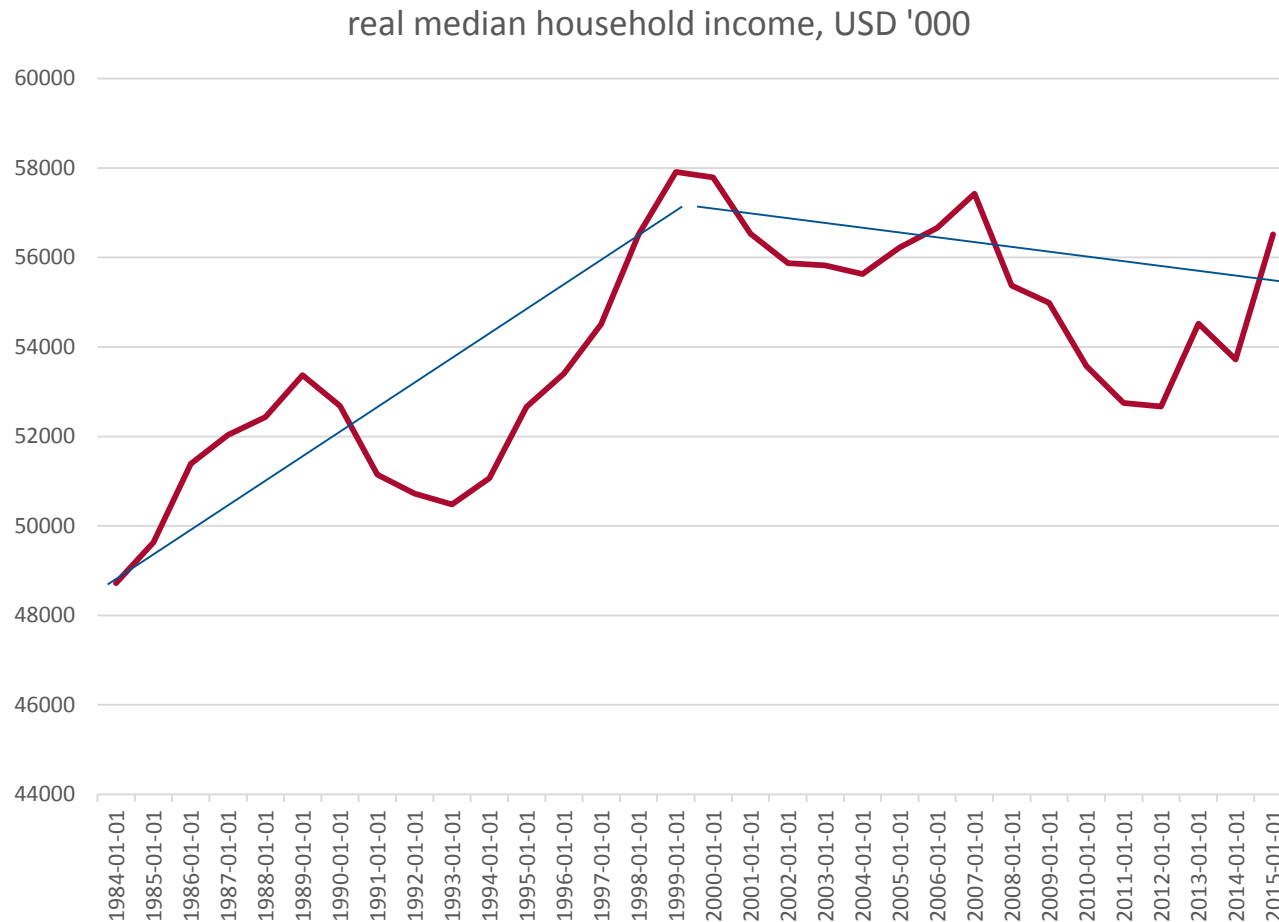
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INTERNATIONAL PEACE

Where is the cycle? - In commodities

8 Inflation adjusted, normalized to 1 as of Y1968, prices of crude oil, gold and platinum in 1968 dollars

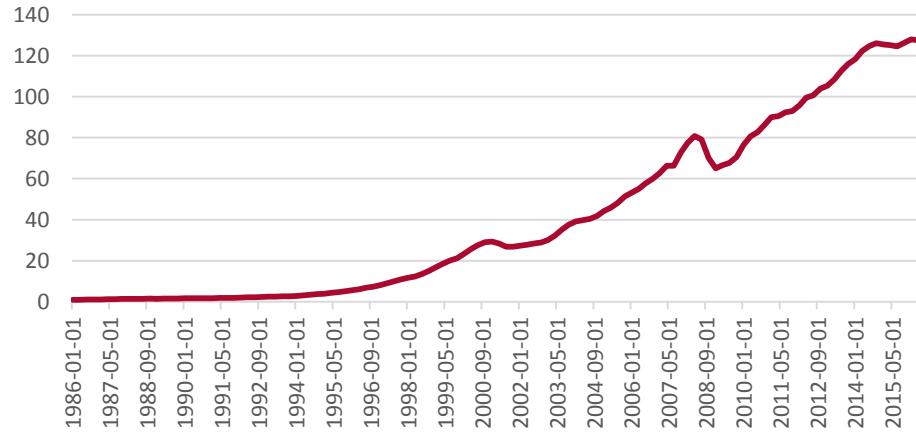


Another cycle indicator

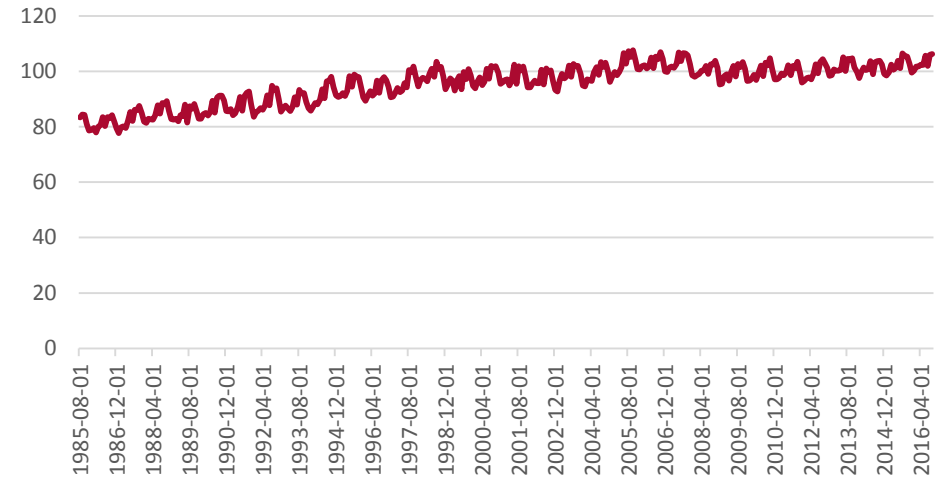


Production stagnates since 1998-2000

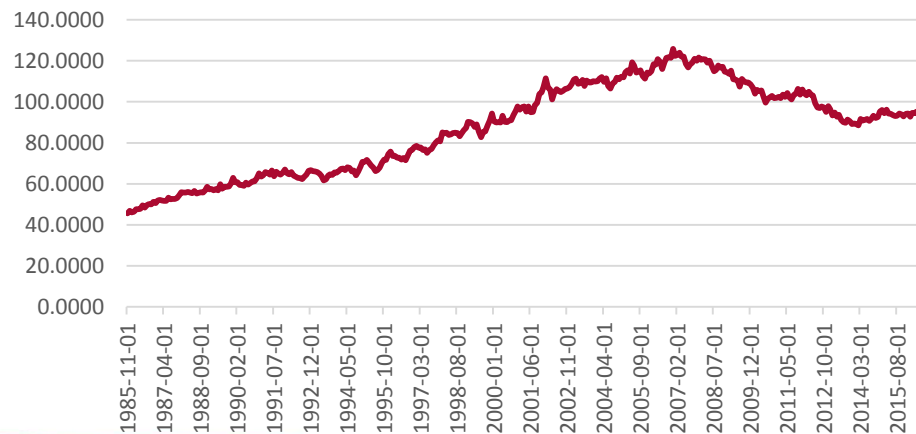
Production of computer equipment, 2012 = 100,
the US



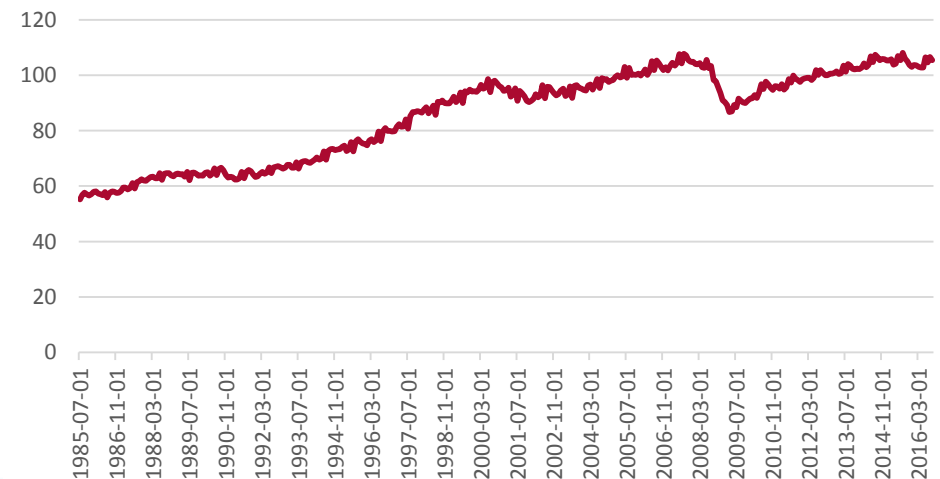
Production of food and bev, 2012 = 100, the US



Production of medical and pharm, 2012 = 100,
the US



Production total, 2012 = 100, the US

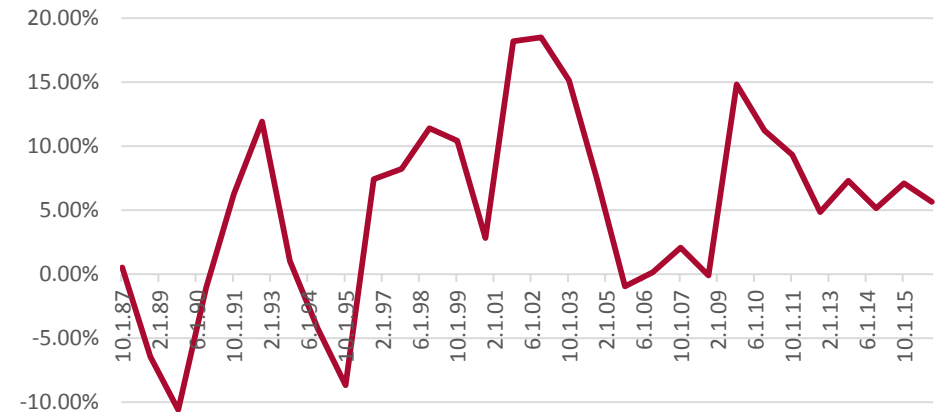


Monetary policy is inefficient – since 1997

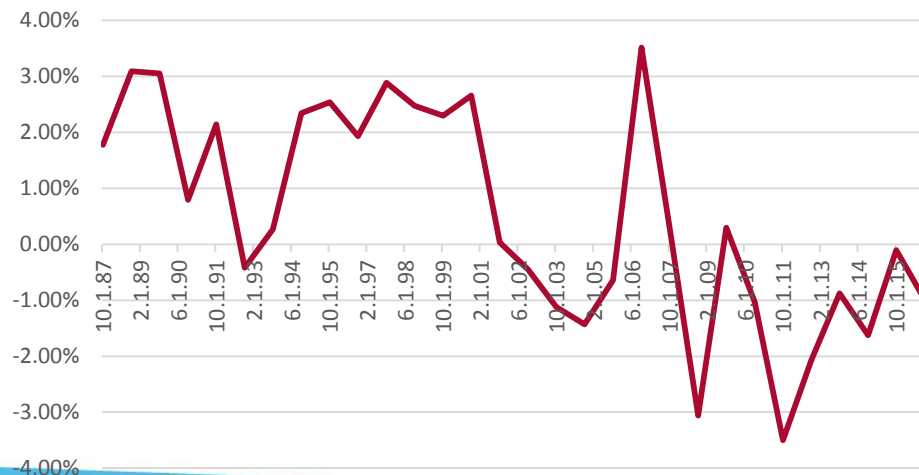
M2 velocity, the US



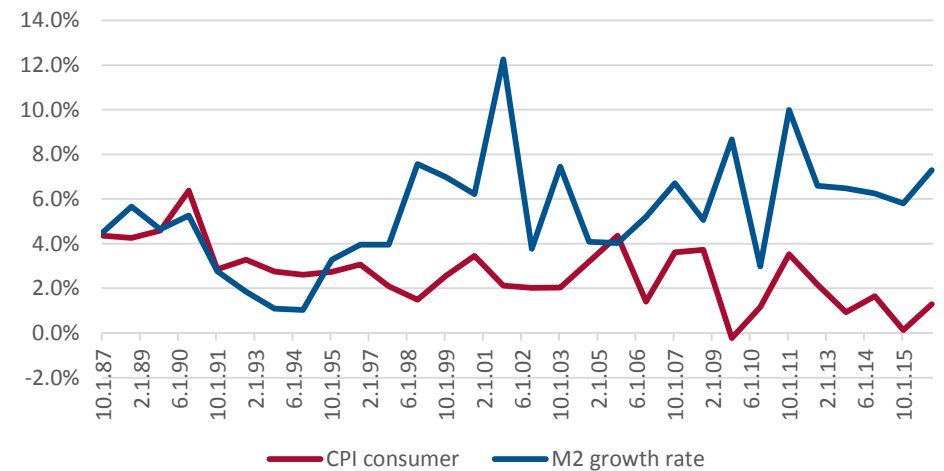
real deposits growth rate



3 month real interest rates



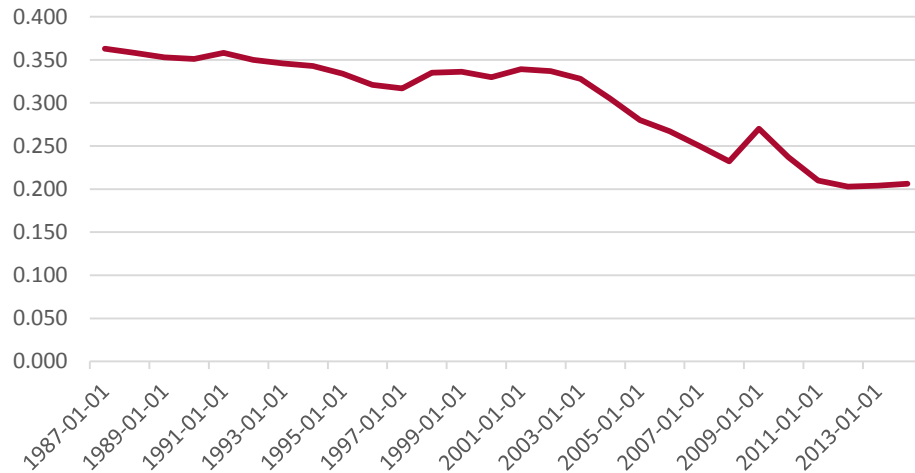
M2 growth rate and CPI, the US



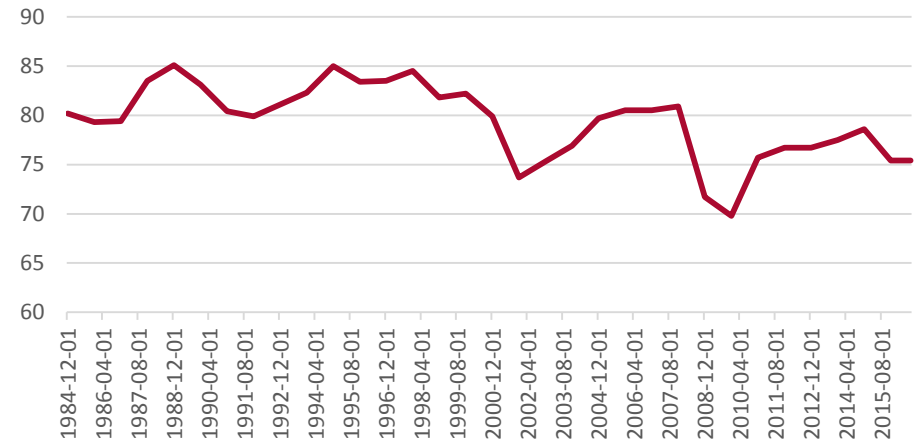
Labor intensity was the driver,

but not any more

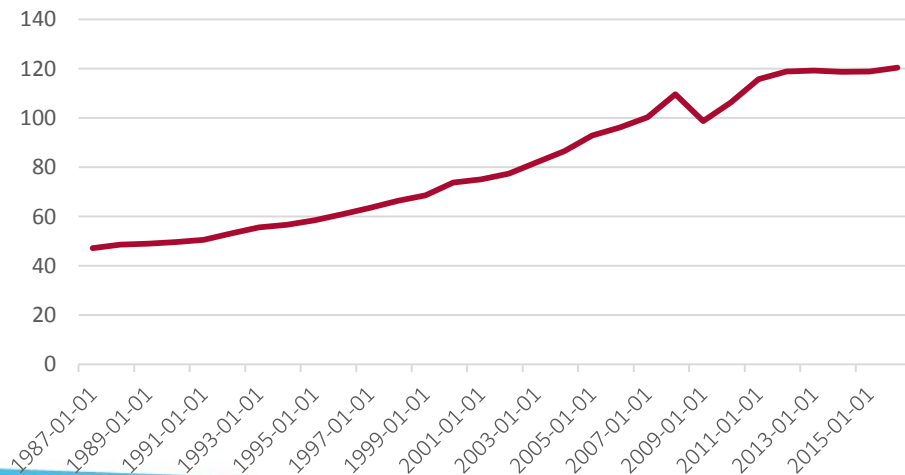
Labor factor share in manufacturing cost, the USA



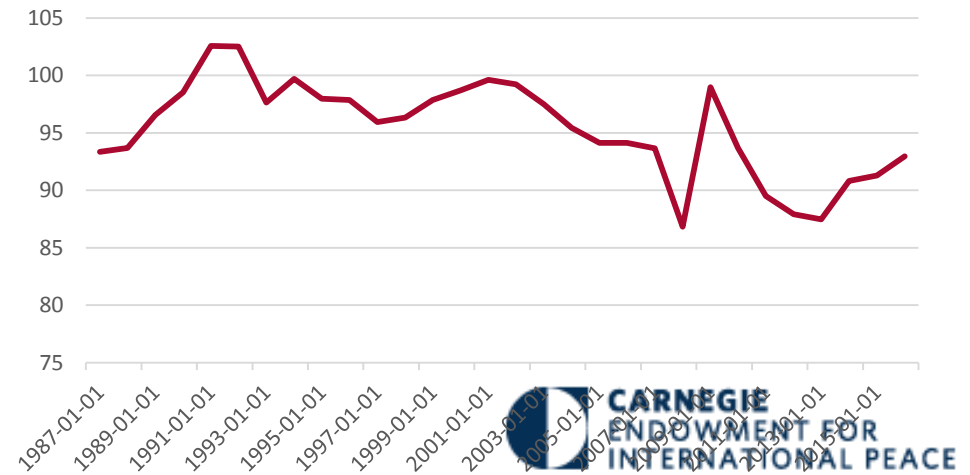
The US industrial capacity utilization, %



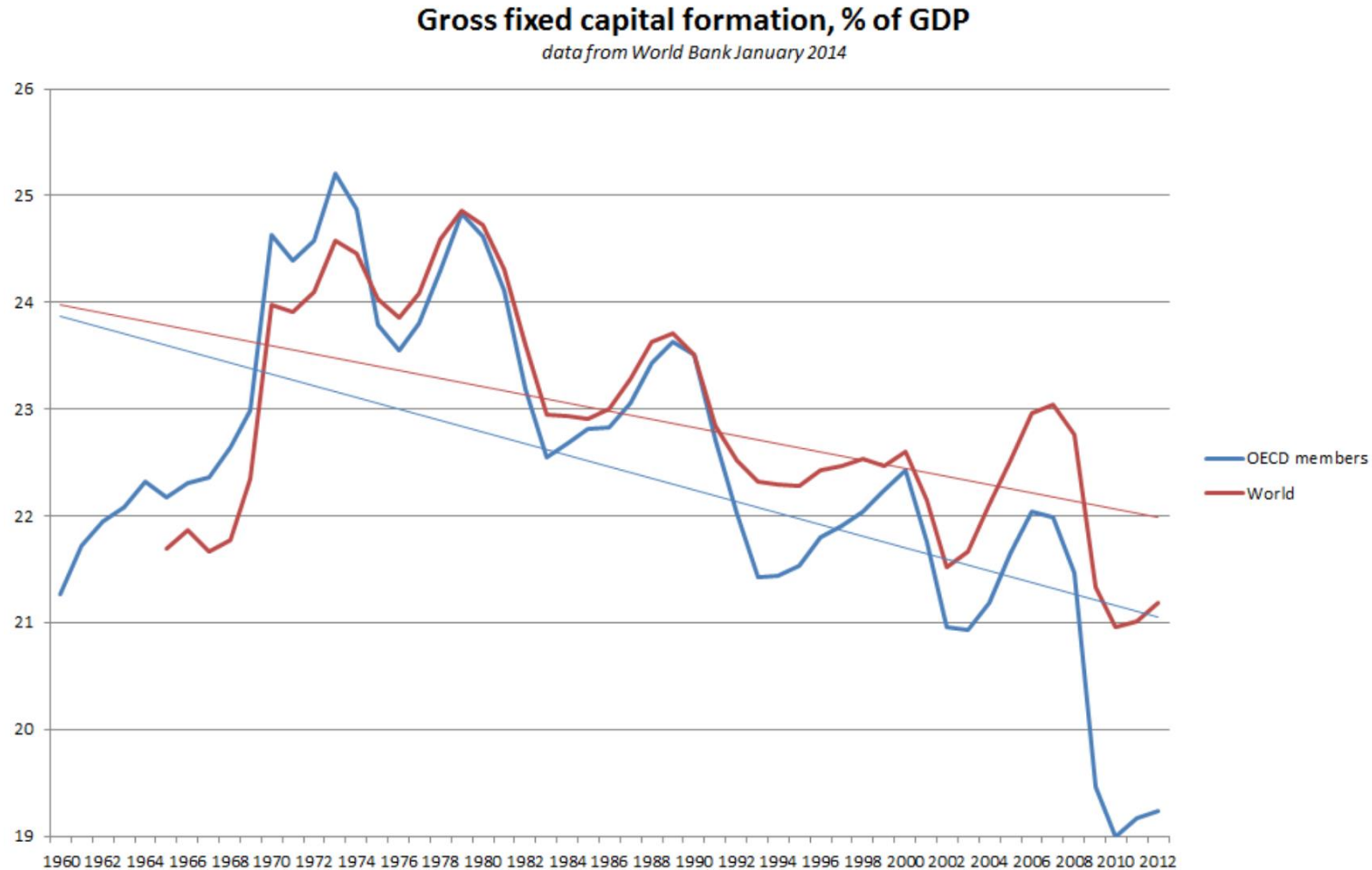
Real output per hour, the US, manufacturing



Real unit labor cost index, the US

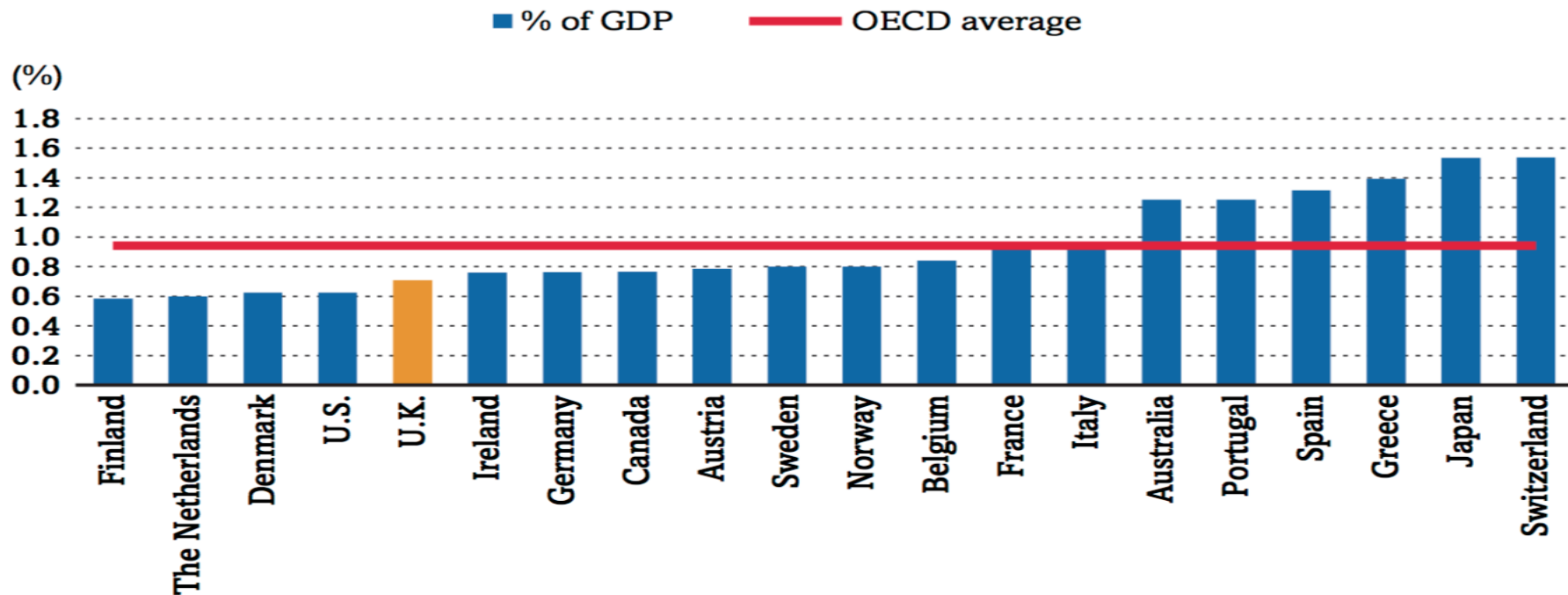


Fixed capital points at the end of cycle



Infrastructure investments do not help any more

Chart 2 | Average Transportation Infrastructure Investment In 1995 To 2011



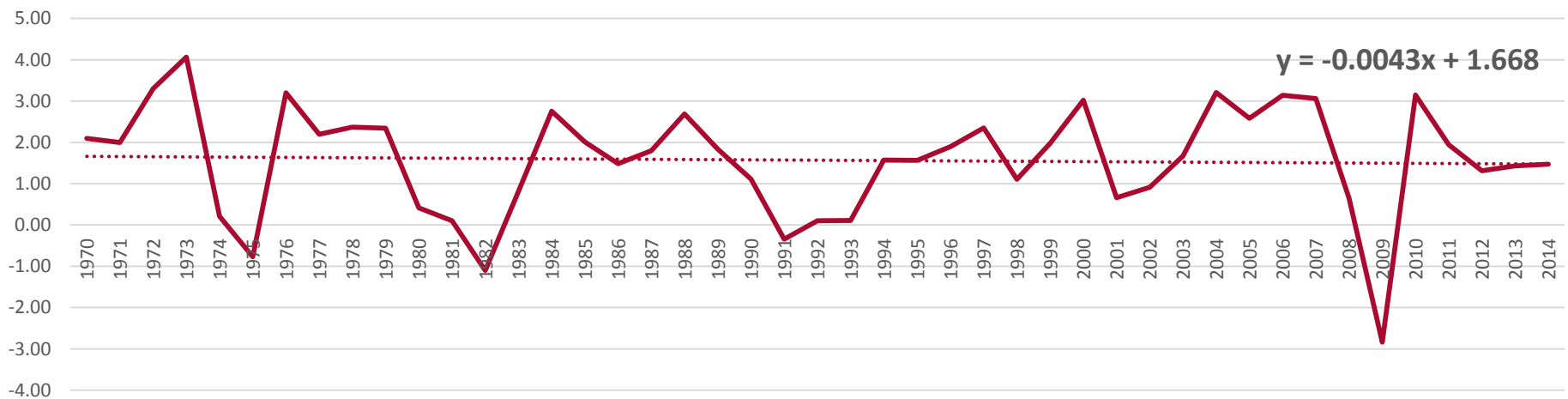
OECD—Organisation for Economic Co-operation and Development.
Sources: International Transport Forum, Standard & Poor's calculations.
© Standard & Poor's 2014.

However the global GDP growth is rather stable

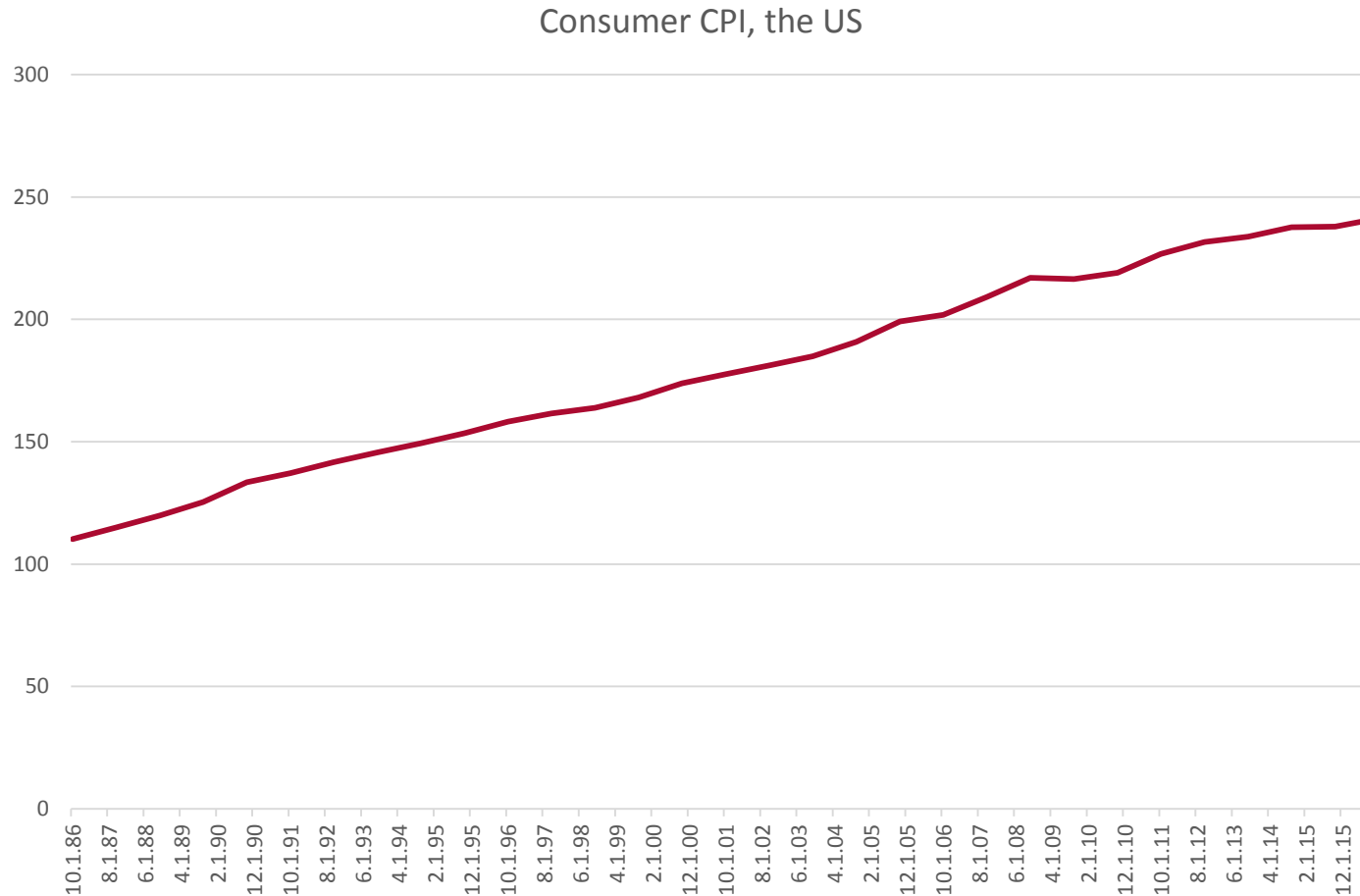
Annual growth of world GDP in 2010 dollars



A growth rate of the world GDP in %

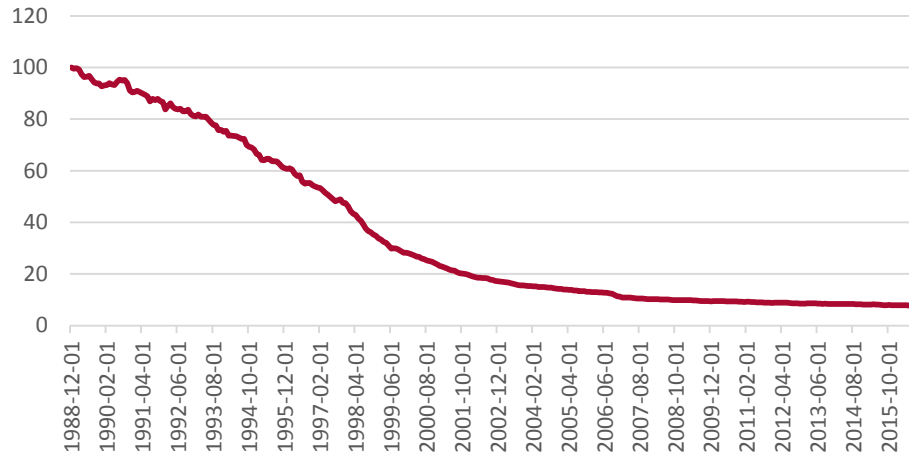


CPI growth looks quite linear also

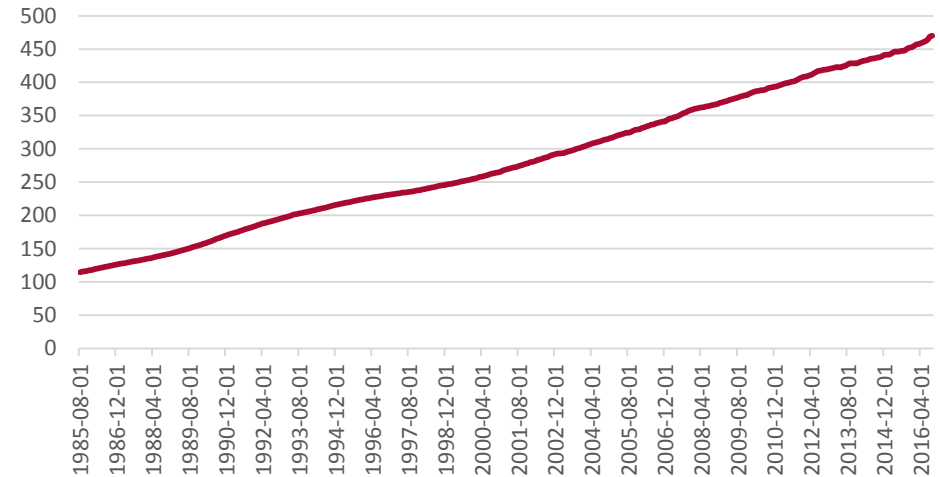


Although CPI per industry is not

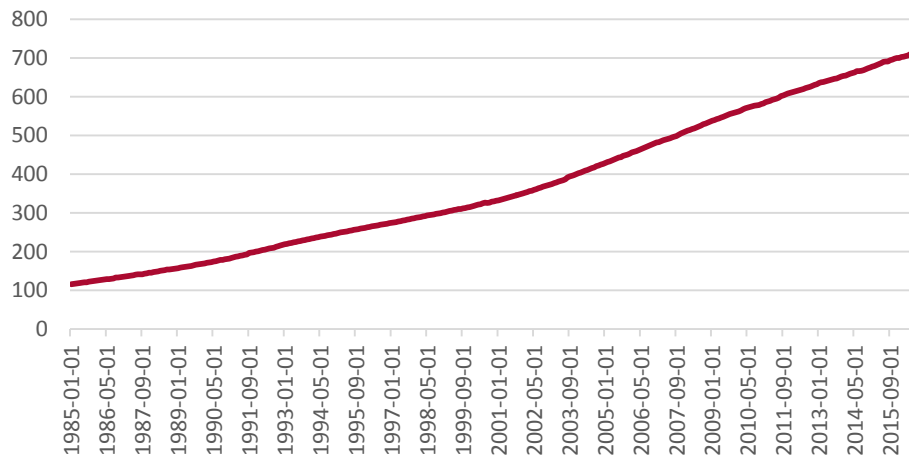
CPI high tech equipment, the US



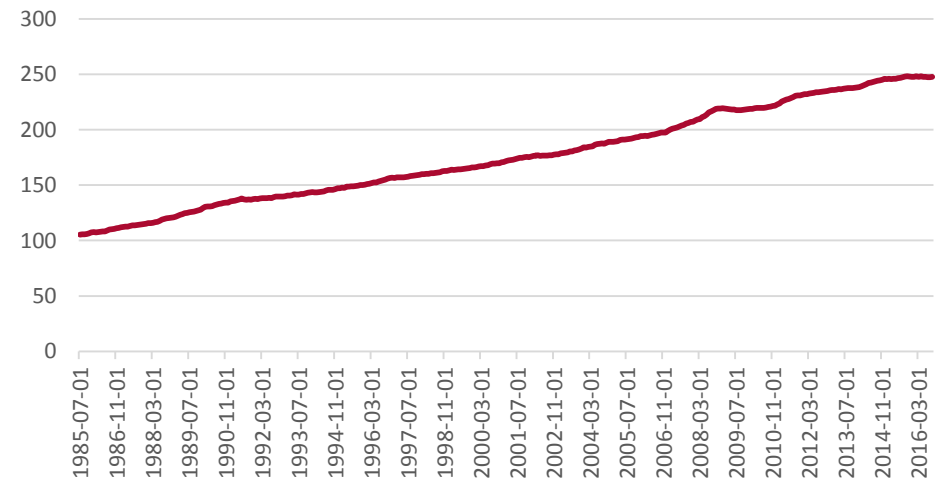
CPI medical services, the US



CPI education, the US

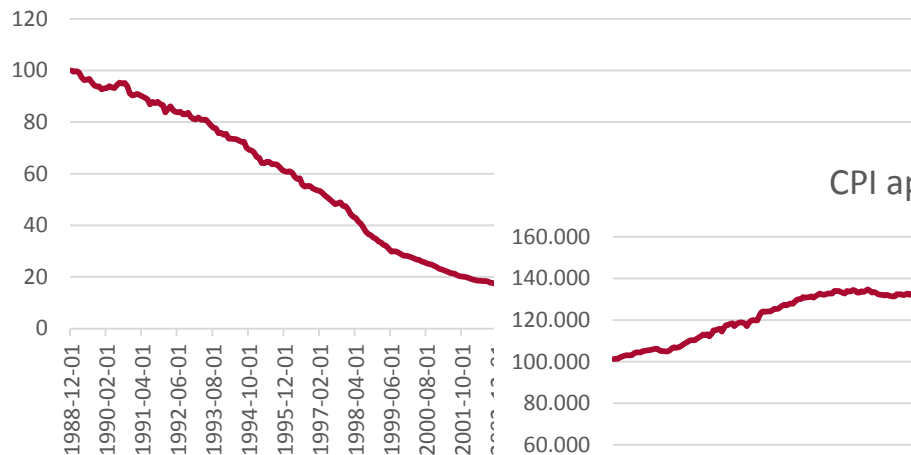


CPI food and bev, the US

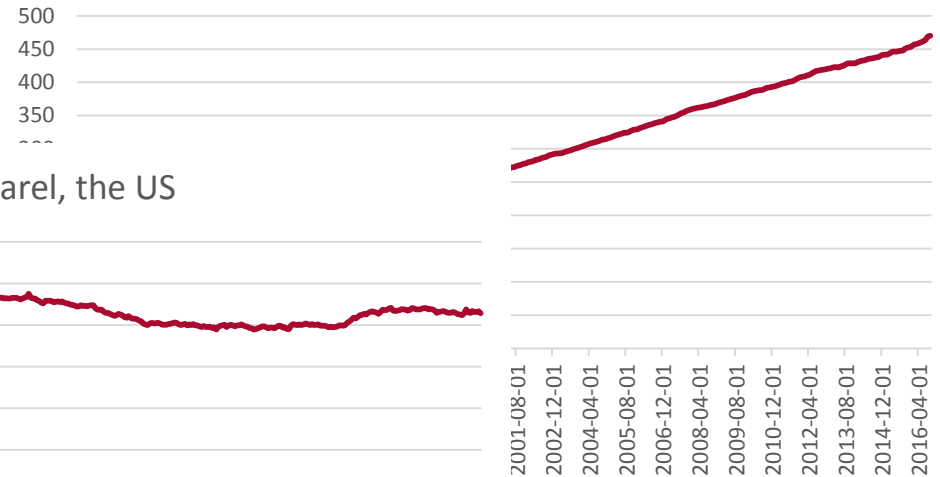


And even sometimes flat

CPI high tech equipment, the US



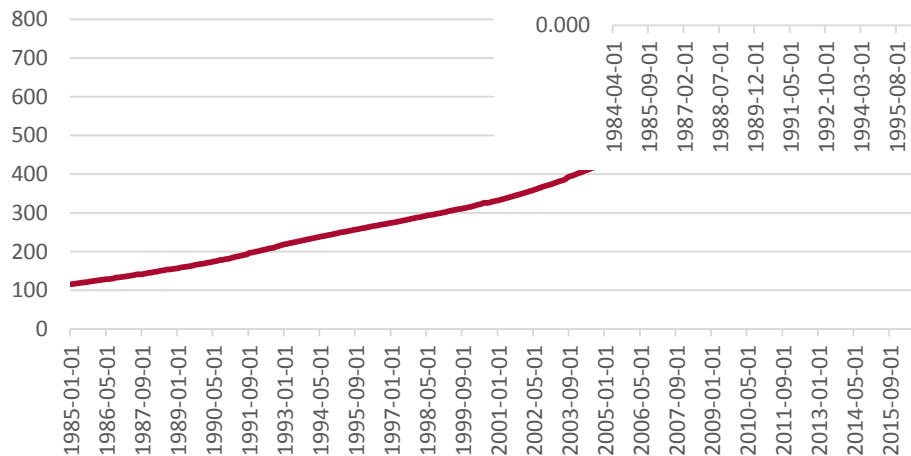
CPI medical services, the US



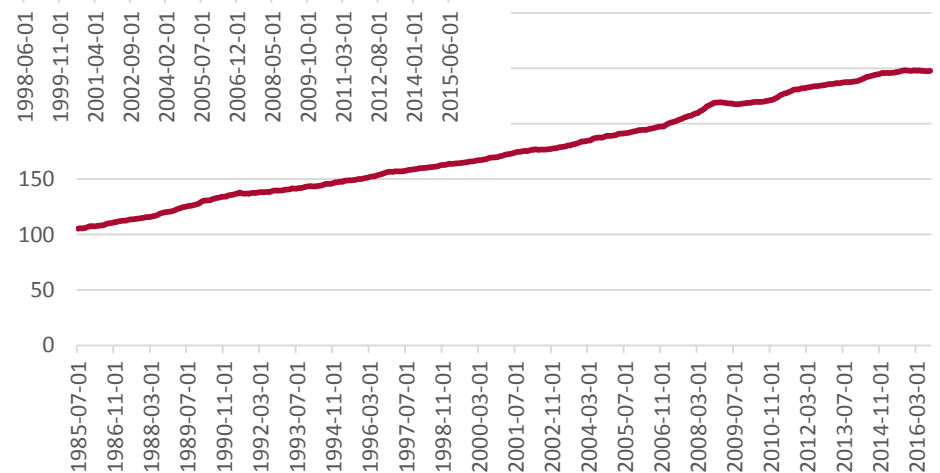
CPI apparel, the US



CPI education, the US

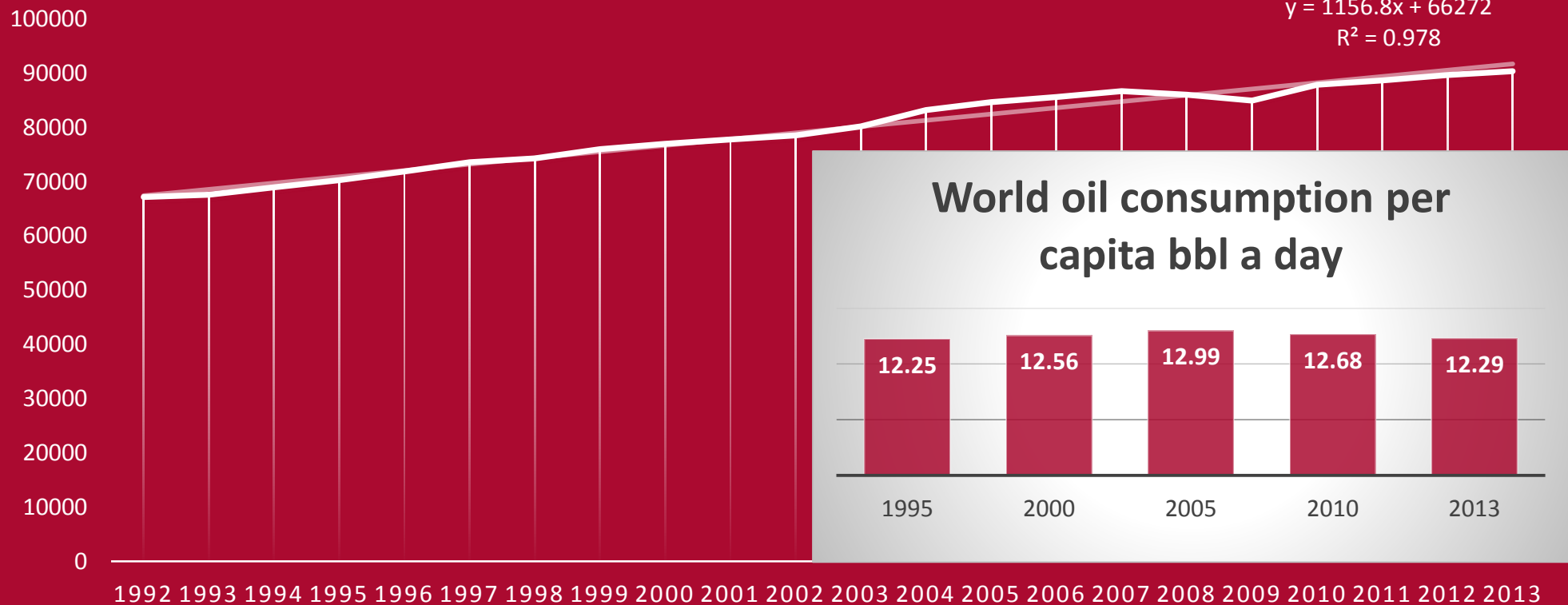


CPI recreation, the US



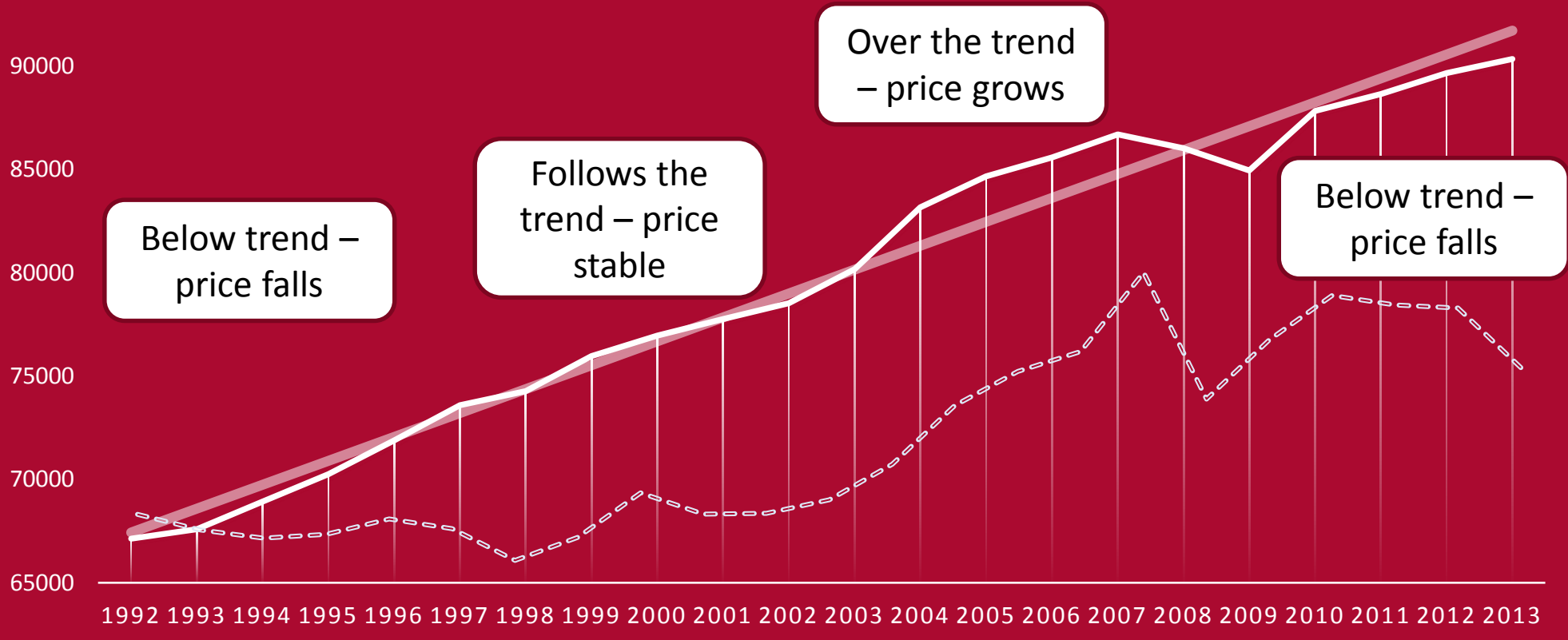
Oil consumption is driven by population size

WORLD OIL CONSUMPTION IN 000 BBL A DAY



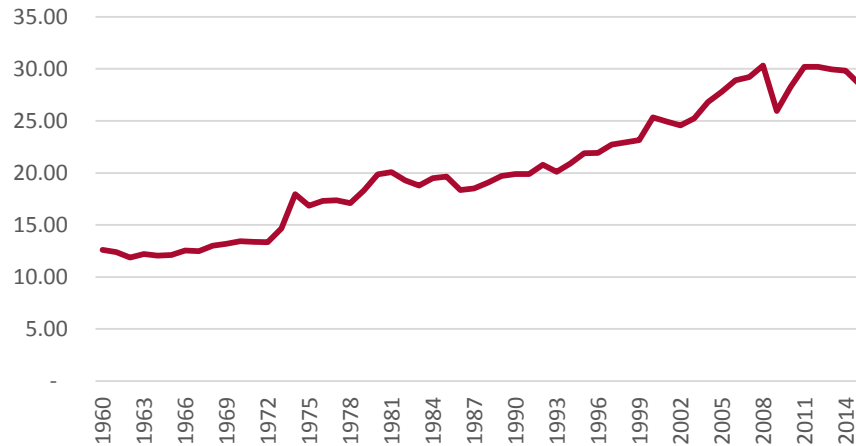
And the price driven by rather small changes in consumption

WORLD OIL CONSUMPTION IN 000 BBL A DAY

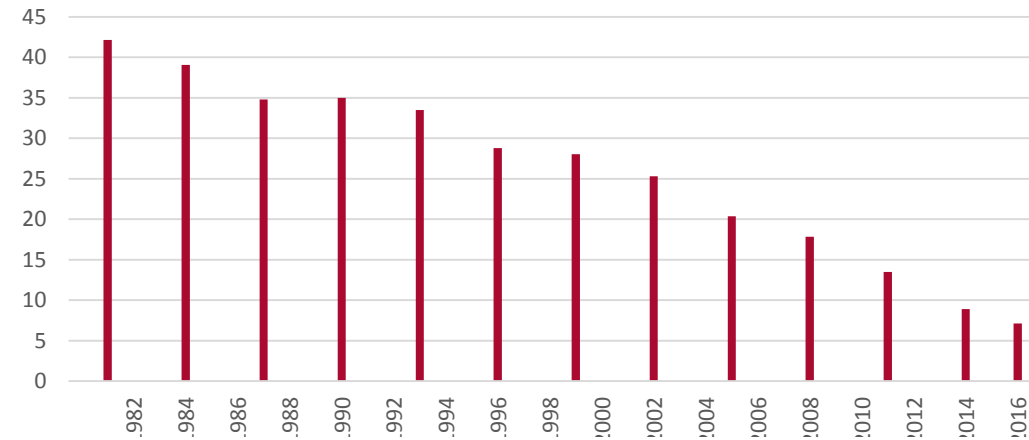


Four major trends that persist through cycle

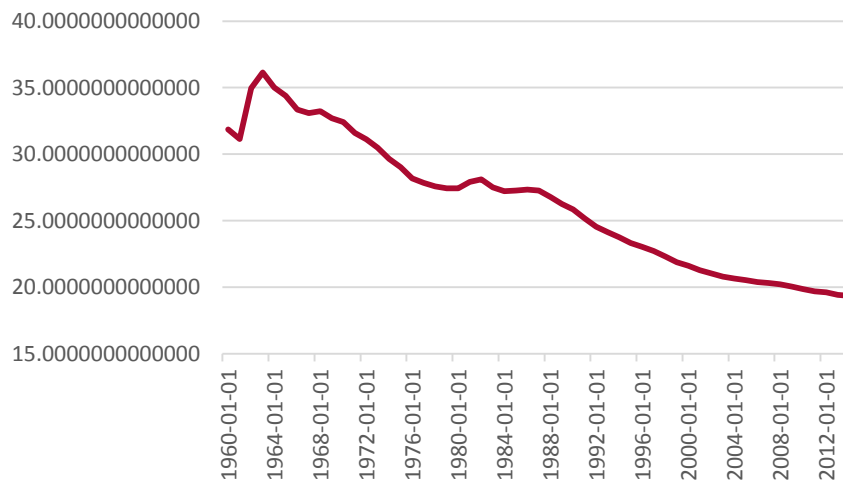
SHARE OF IMPORTS IN GDP, WORLD, %



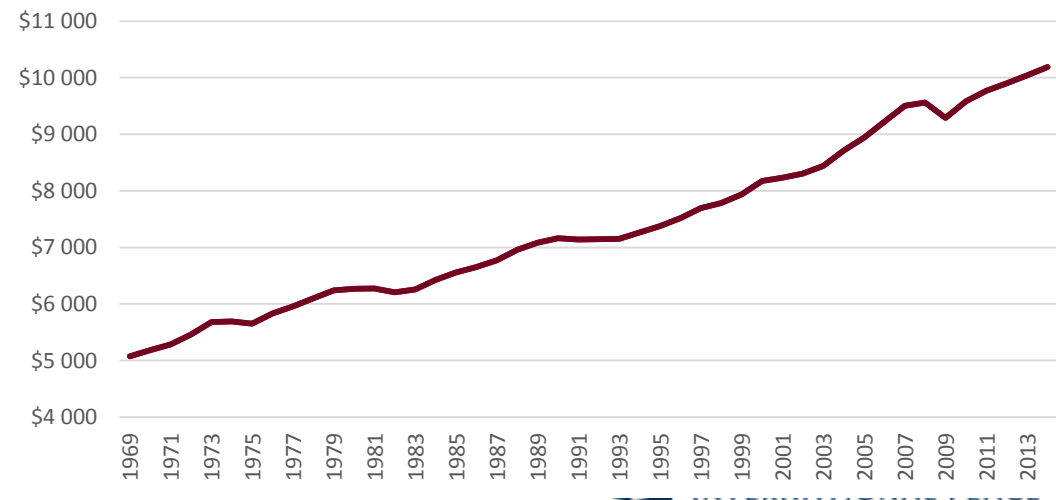
POVERTY RATE IN %, WORLD



CRUDE BIRTH RATE, WORLD, PER '000



REAL GDP PER CAPITA IN 2010 USD, WORLD



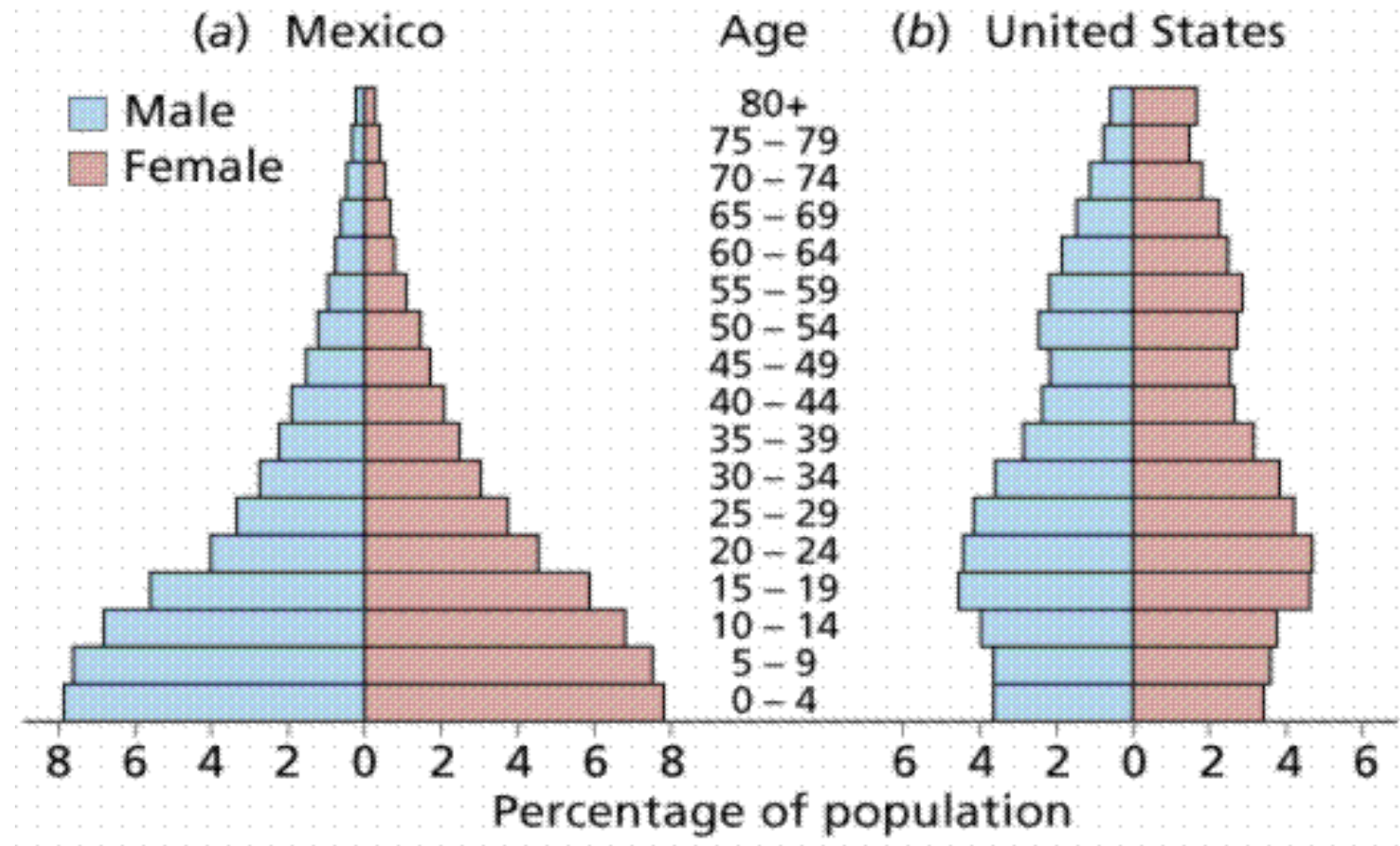
The composition of value chain has changed dramatically

	parameter	1990	2015	change
	trade as %% of GDP	38	59	55%
	imports as %% of GDP	19,3	28,1	46%
	gross savings as %% of GDP	22,3	19,9	-11%
	government consumption as %% of GDP	16,8	18,6	11%
	household consumption as %% of GDP	60	61,6	3%
	fixed capital formation as %% of GDP	22,6	19,4	-14%
	agriculture AV %% of GDP	5,4	2,8	-48%
	manufacturing AV %% of GDP	18,8	16,7	-11%
	non manufacturing industry AV %% of GDP	14,4	9,6	-33%
	services AV %% of GDP	61,4	70,9	15%

Few nations will grow the stock of consumers

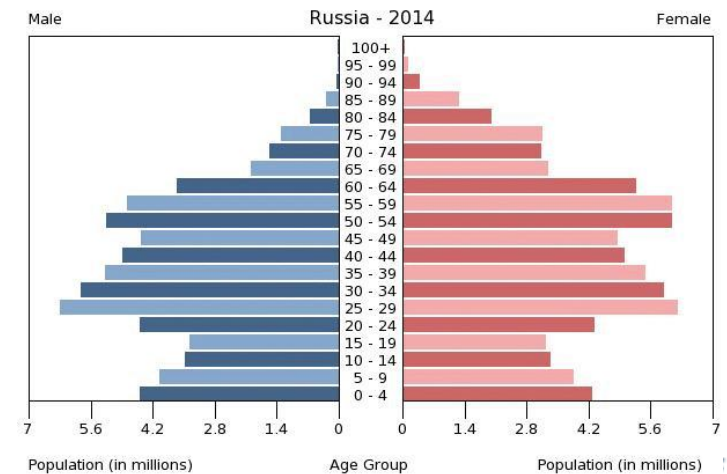
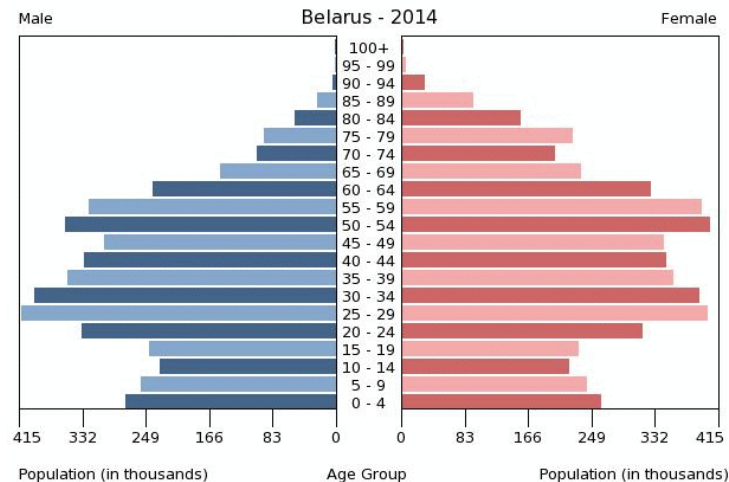
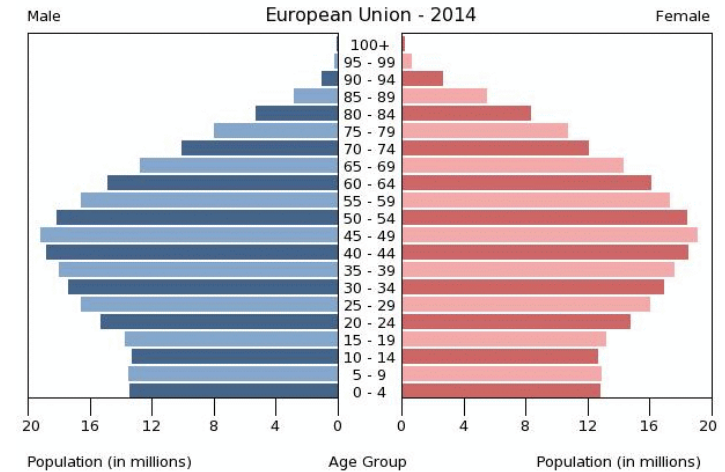
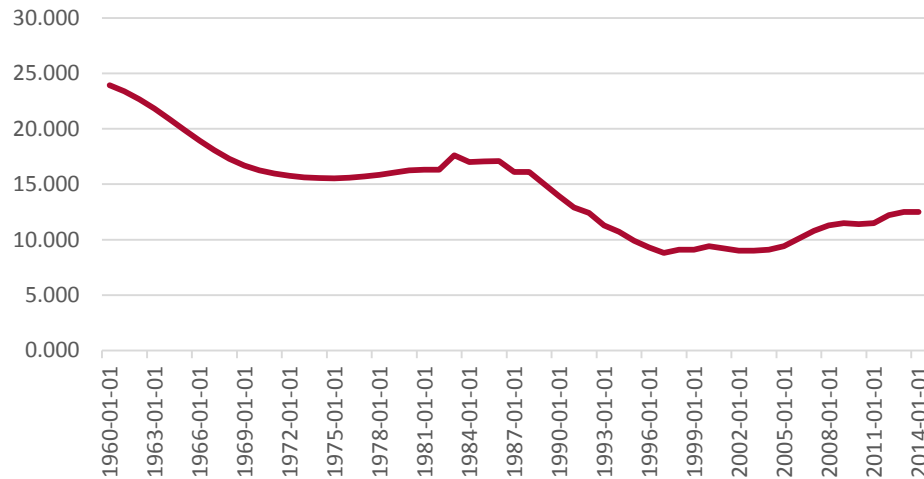
Migration does not affect the picture any more

Migration per
year
The EU ~ 2 mln
MENA ~ 0
SSA ~ - 1 mln
The US ~ 0,5 mln
LatAm ~ - 0,5
mln
EMEA ~ 0
Russia ~ 0



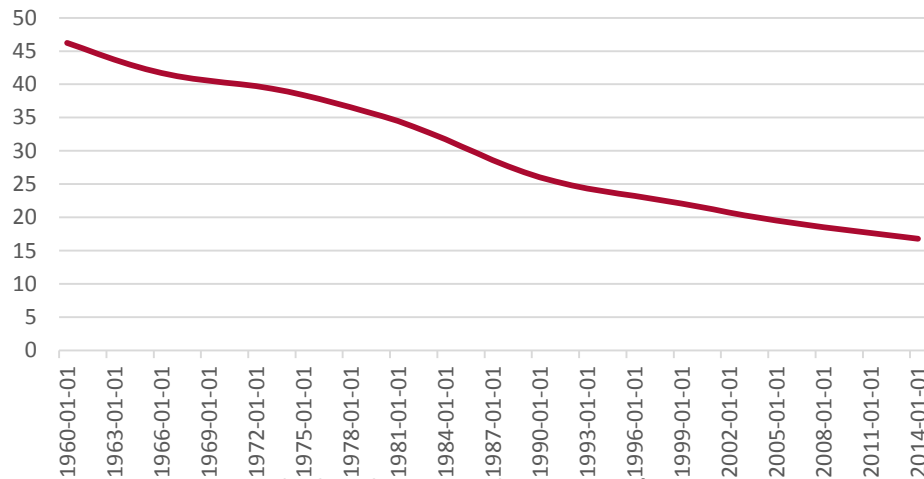
Great internal consumers/producers loss is ahead

CRUDE BIRTH RATE, BELARUS, PER '000

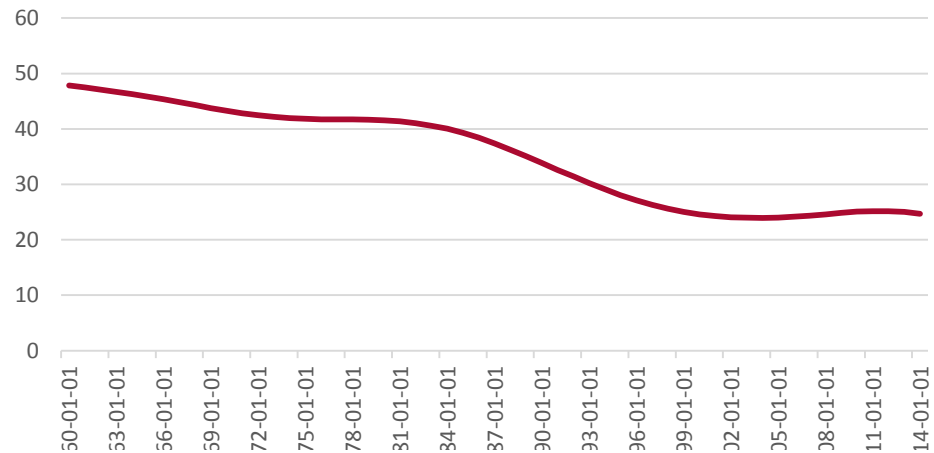


And in almost all countries

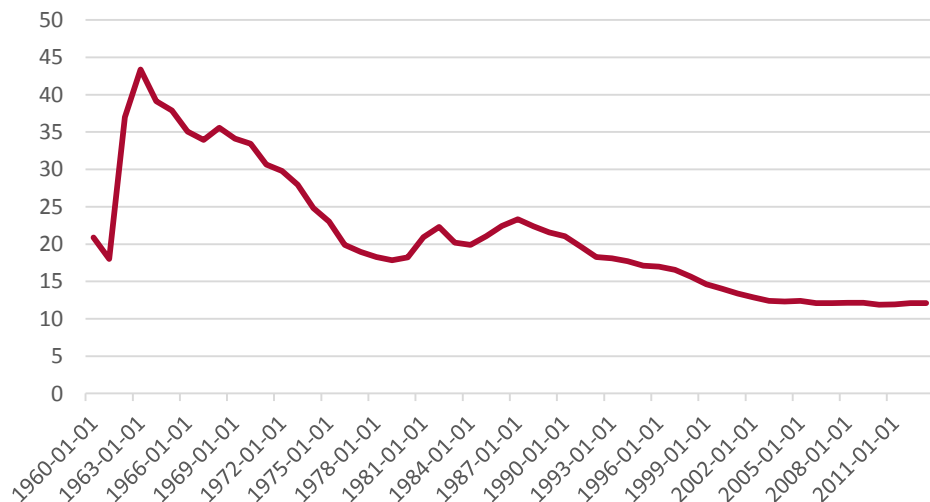
Crude birth rate, Turkey, per '000



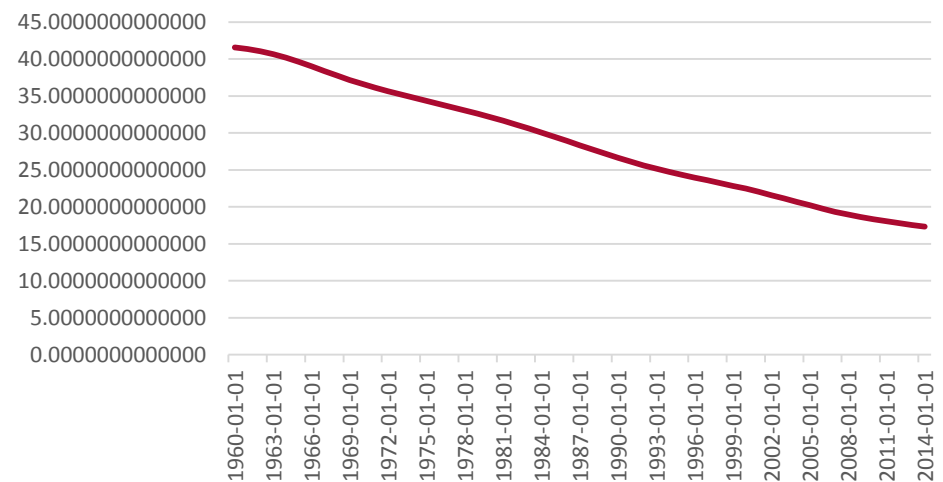
Crude birth rate, MENA, per '000



Crude birth rate, China, per '000



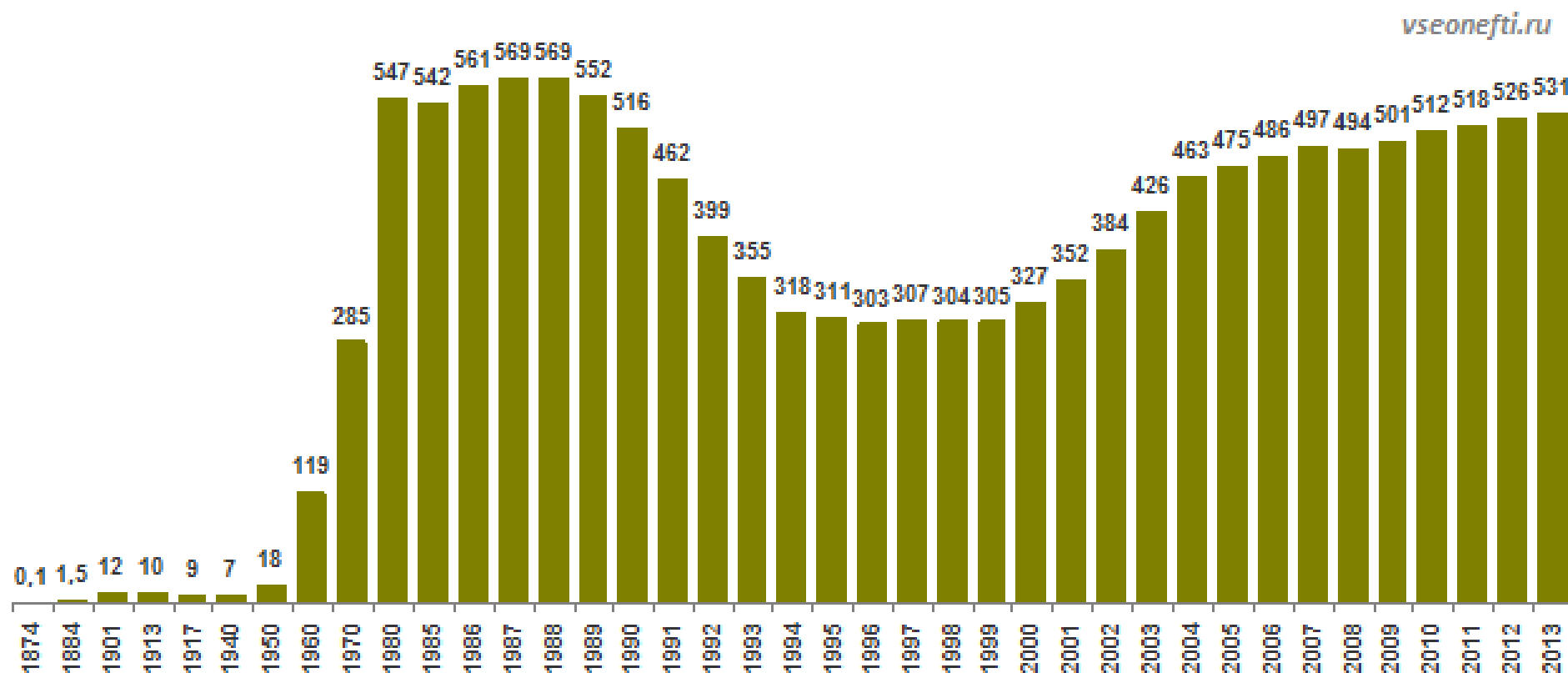
Crude birth rate, LatAm, per '000



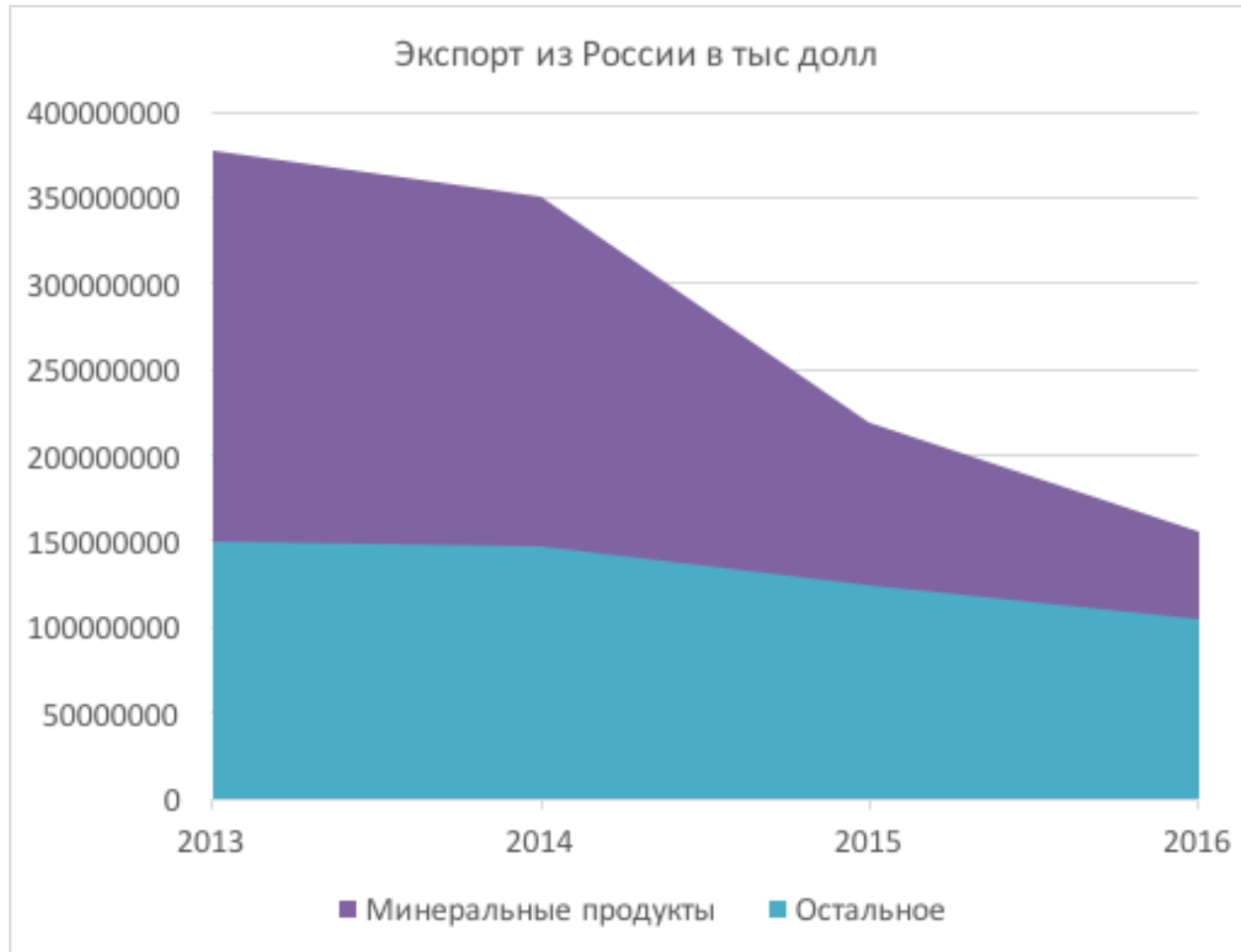
- Three major facts determine the mid term future of the global economy:
 - The number of active consumers will decrease;
 - There will be no brand new growth trigger;
 - The number of passive consumers will increase.
- Oil price, migration, current account disbalances – are false agenda
- Through next years the oversupply of money will persist;
 - Do not confuse it with budget revenues!
- We are in the best times for borrowing ever
- Added value migrates into marketing and R&D, but more into marketing
- Trade share of GDP grows – barriers become problems for the builders
- For all countries domestic markets become insufficient

Russia – bad start, gloomy perspective

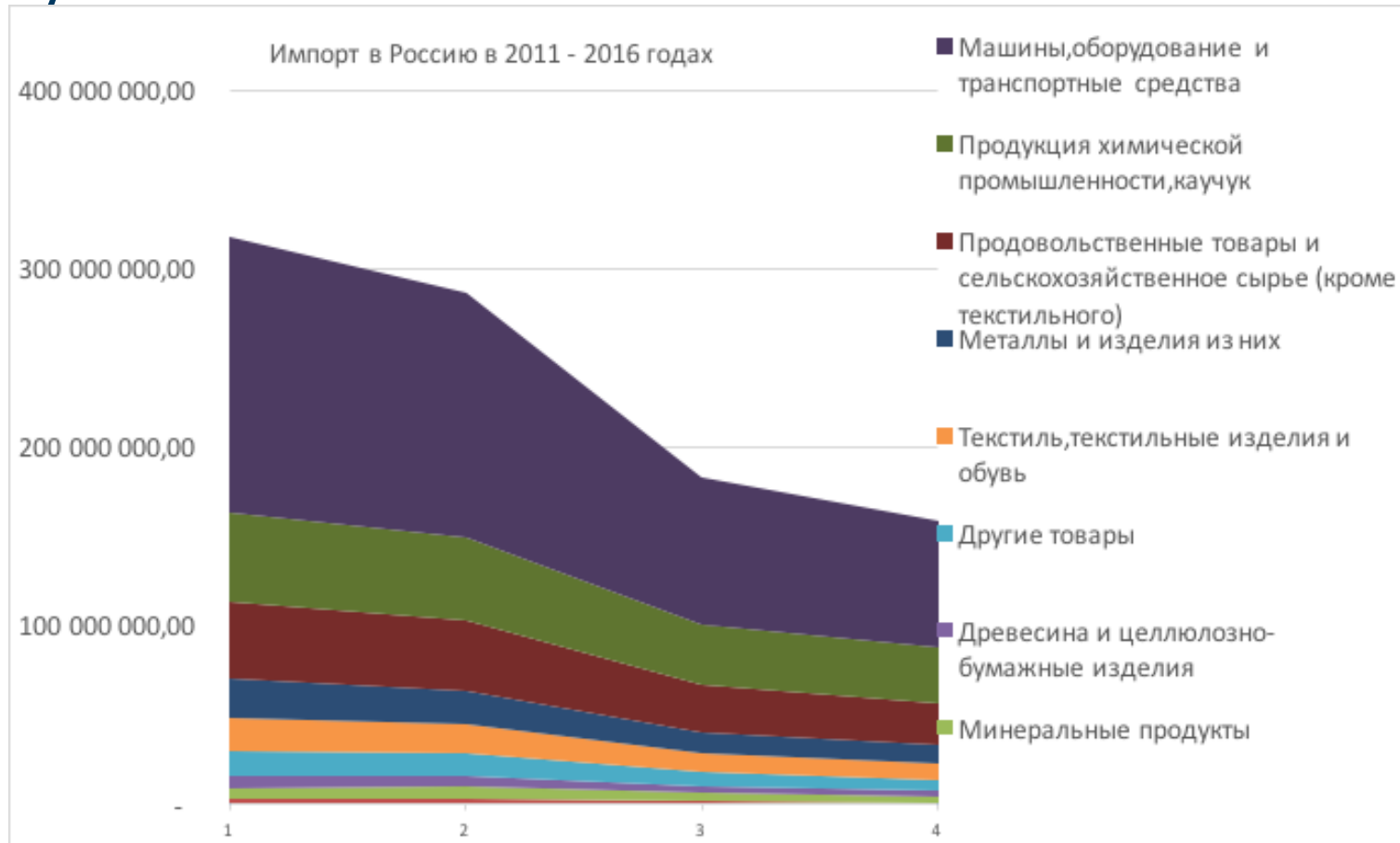
Pumping at full speed



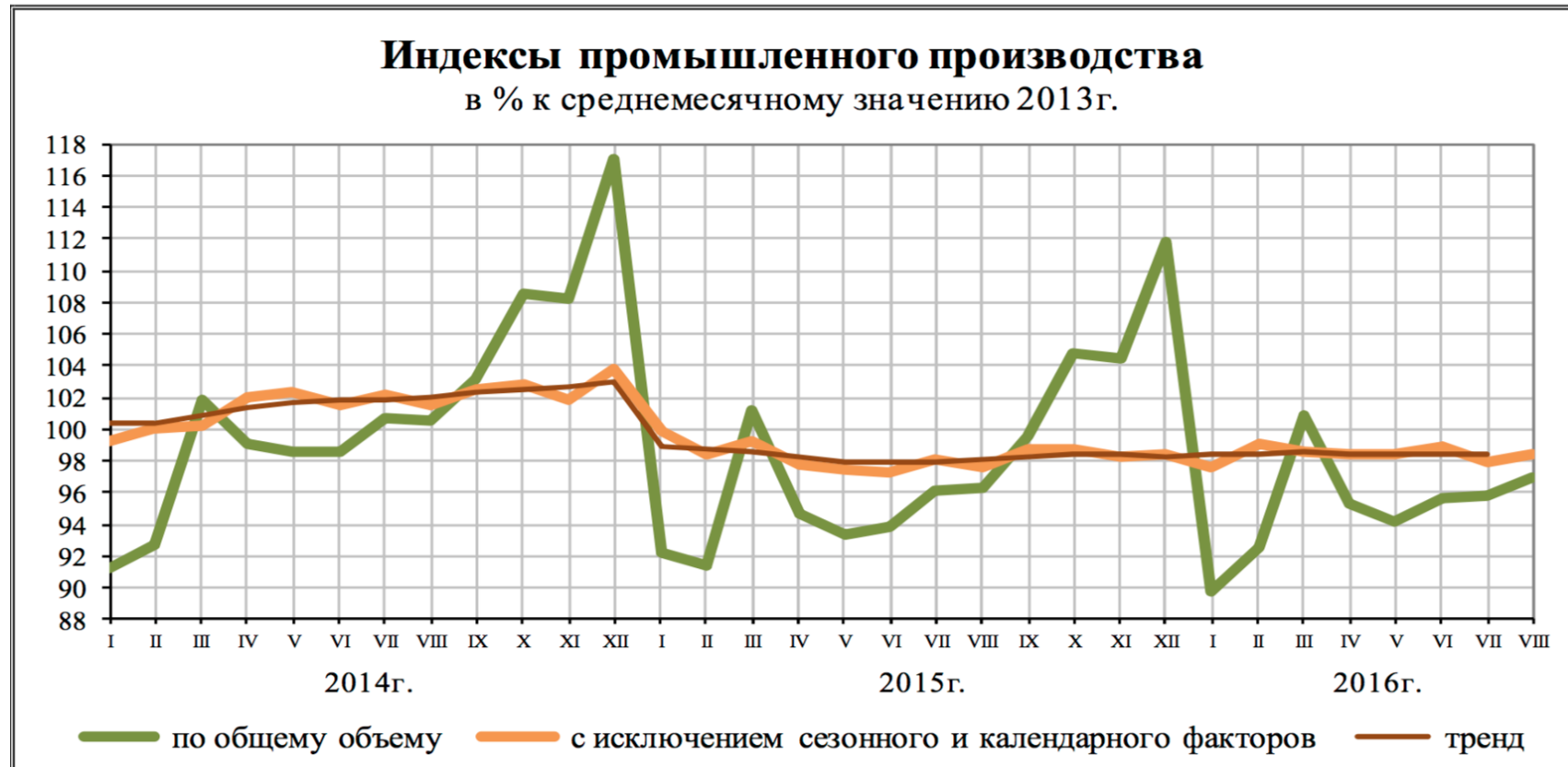
Non-oil exports in decline



Imports in decline as well, however the delayed demand is about to come



Physical volumes go down about 2% per year



Although mineral resources extraction grows



Latest news

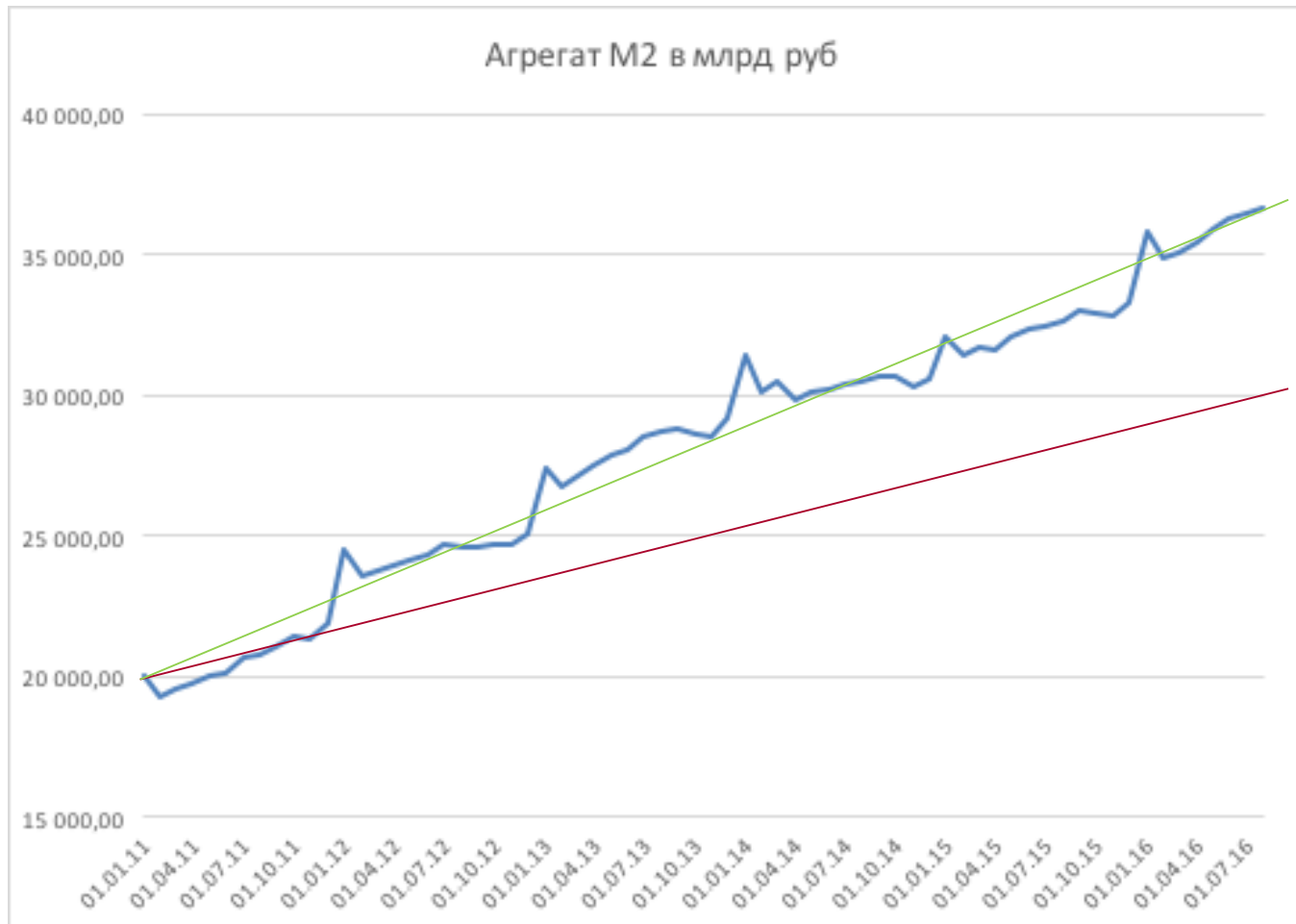
parameter	2015 (or in %% to 2014)	2016 (or in %% to 2015)
Household income	94,9%	91,7% 
Share of taxes and duties in incomes	9,6%	12,4%
RE purchases	~ - 20%	~ - 25% 
GDP based on fixed prices calc	- 3,8% (Y2011 level)	- 1,2 - -2% (Y2010 level)
Non oil exports	83%	85%
Imports	63%	96%
Banks balances in central bank	117%	199% 
M2	108%	111% 
Budget revenues in constant prices	91,1%	80% 

Mid income trap

страна	данные за	средняя зарплата номинал, долл	PPP	средняя зарплата, ИПС, долл
Norway	декабрь 2015	5251	10,971	1099
United States	август 2016	4382	1,000	4382
Japan	июль 2016	4274	1,111	2747
Germany	декабрь 2015	4064	1,135	1611
South Korea	июнь 2016	3021	1,399	227
Estonia	июнь 2016	309	1,575	161
Greece	ноябрь 2015	256	1,470	1845
Chile	июнь 2016	150	1,794	163
Argentina	март 2016	141	2,220	1533
Slovak Republic	июнь 2016	126	1,793	119
Poland	июнь 2016	1045	2,123	219
China	декабрь 2016	770	1,832	1411
Romania	июль 2016	727	2,275	1654
Brazil	июль 2016	501	2,021	1215
Russia	июль 2016	548	3,253	1782
Turkey	декабрь 2010	507	2,217	123
Kazakhstan	июль 2016	431	3,695	1592
Georgia	март 2016	395	2,554	1010
Belarus	июль 2016	373	3,654	1363
Azerbaijan	июнь 2016	308	4,822	1483
South Africa	март 2016	301	2,718	1817
Vietnam	июнь 2016	218	2,743	1597
Ukraine	июль 2016	204	4,063	1830
Kyrgyz Republic	июнь 2016	203	3,333	1677
Tajikistan	июнь 2016	131	3,732	1487
Indonesia	ноябрь 2015	121	3,213	189

M2 exceeds inflation

- does not help as in the US



Banks mount extra cash balances



Inflation goes down because of the decrease of demand



Russian elites bet on old horses, while next cycle winners will ride new ones

Russian seem-to-be strategy

- Reindustrialization
- Agriculture and food security
- Increase of the role of the state
- Market protectionism and self-sufficiency
- Resource driven economy
- Infrastructure enhancement

NEW ARGENTINA, 100 YEARS AFTER

Winning ideas

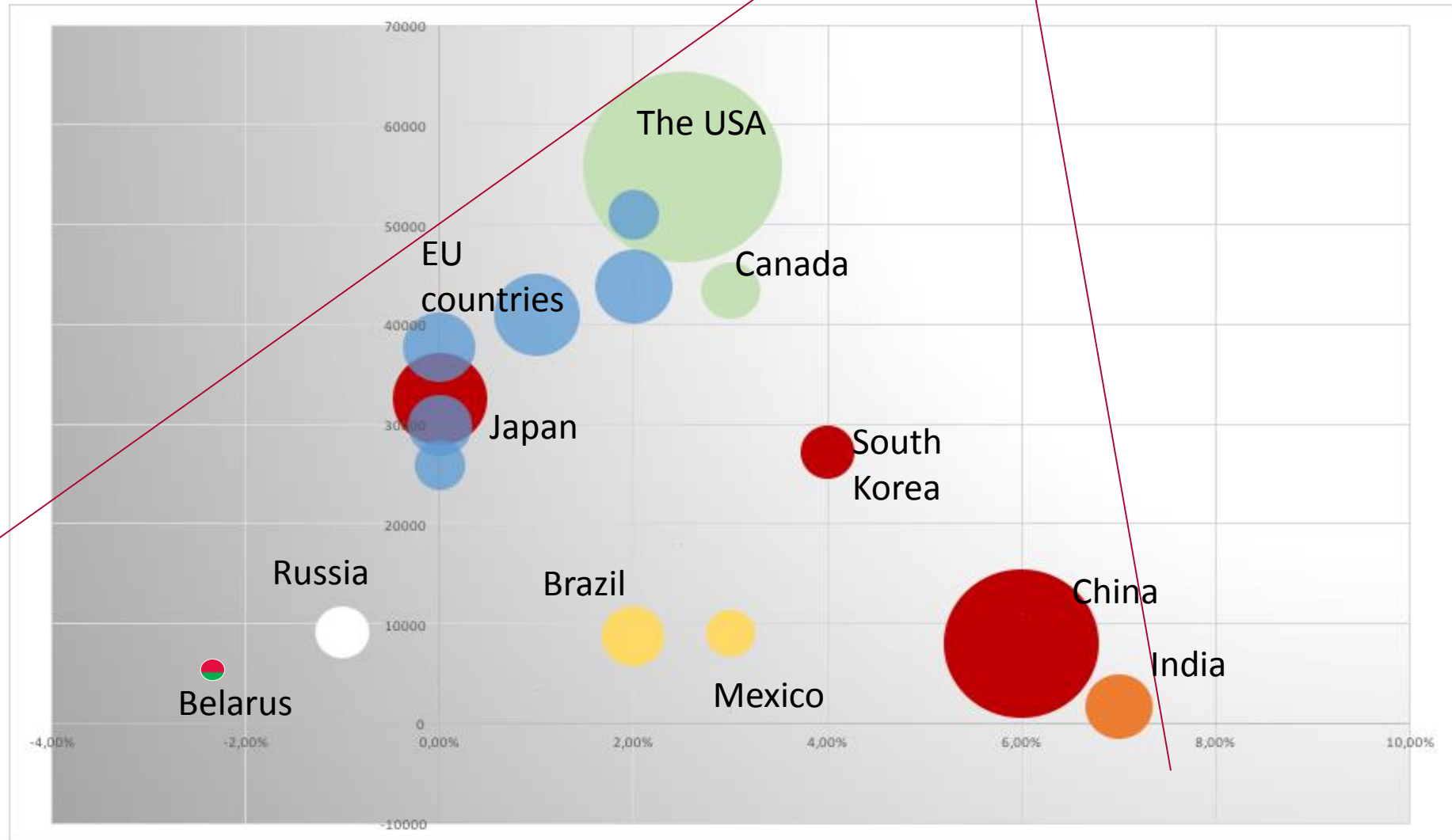
- “Servicization”
- International labor division
- Decrease of the role of the state
- Participation in global economic blocks
- Marketing driven economy
- Education and medicine enhancement

Belarus in the global context



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Economic radar screen – biggest ones



Belarus at a glance

Parameter	Belarus	World rank	Poland	Russia
GDP per capita, USD	5800	86	12500	9000
Industrial production 2013 – 2016 growth rate	1%	148	4%	-3%
Share of industry/agriculture in GDP	46% / 9%	n/a	33,3% / 4%	37,5% / 4,2%
Budget revenue/GDP	38,5%	50	18%	20,7%
Public debt to GDP	31,5%	115	48,2%	8%
GNS as %% of GDP	25%	49	16,8%	28,3%
Market value of public equity per capita, \$'000	0	-	4,5	2,5
Exports per capita, \$'000	4,4	-	5,2	2

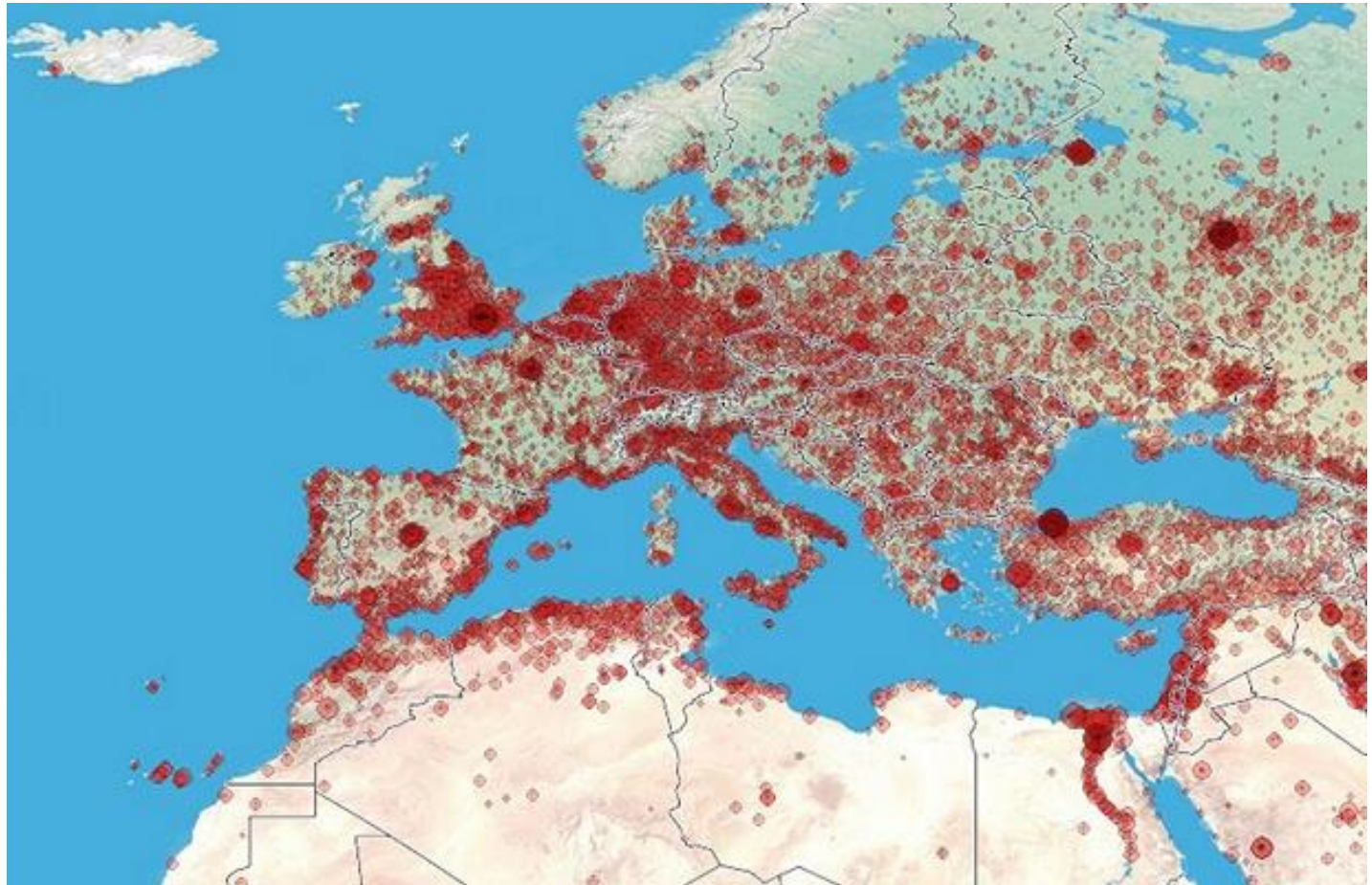
Europe is the only accessible market of sufficient size for distance sensitive goods

EU

- Population over 500 mln
- GDP \$19 trln
- Long term growth 2,5\$
- Total imports 1,8 trln

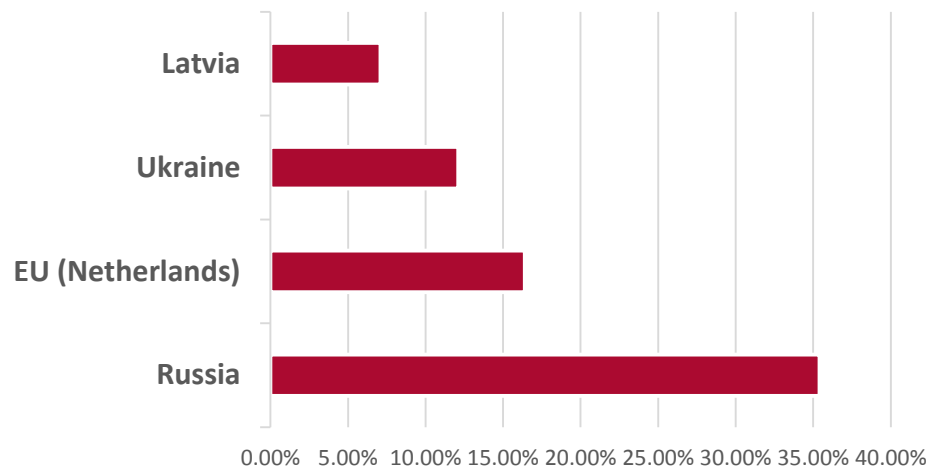
Russia

- 146
- 1,2
- 2%
- 0,16 trln

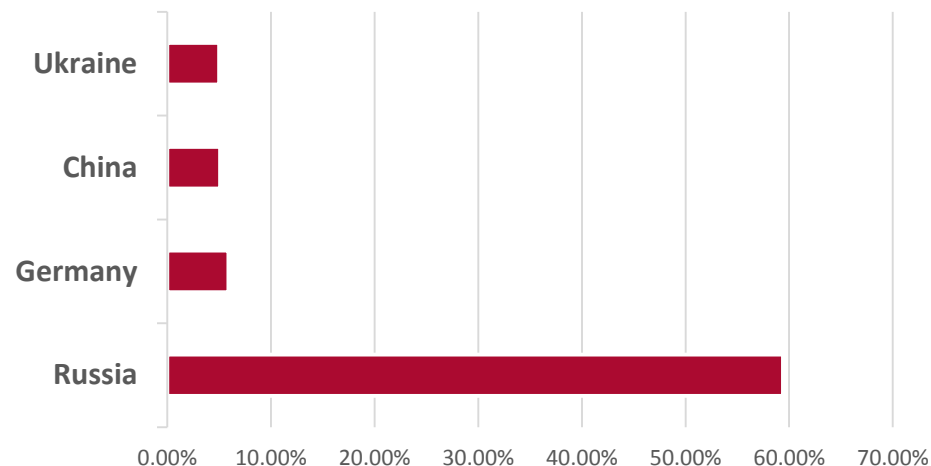


One-sided structure of the economy

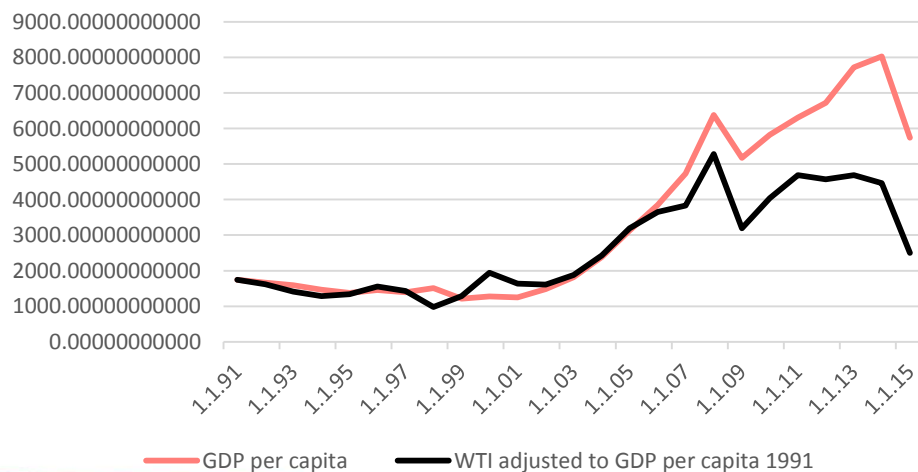
exports from Bearus, main partners, %



imports to Belarus, main partners, %



No oil does not mean no dependence



Russian dependency



Hyperdependency kills

parameter	2011	2012	2013	2014	2015	January- apr 15	January- apr 16	5 months 16/15
Trade turnover	87 178	92 464	80 226	77 180	56 997	18 005	15 115	0,84
Export	41 419	46 060	37 203	36 392	26 686	8 492	6 927	0,82
Import	45 759	46 404	43 023	40 788	30 312	9 513	8 188	0,86
Balance	-4 340	-344	-5 820	-4 396	-3 626	-1 020	-1 262	

Net lending (+) / net borrowing (-) (balance from current and capital account) from 2005 to 2016, USD bln, Belarus - Russia



Share of oil refining in industrial production exceeds 16%

RUR is 50% of the CBB currency basket

The story of 2 countries

Parameter	1 country	2 country
Population mln	9,4	8
Budget revenue/GDP	38,5%	40,2%
Problems with the UN and others	Yes?	Yes
GNS as %% of GDP	25%	22%

The story of 2 countries

Parameter	1 country	2 country
Population mln	9,4	8
Budget revenue/GDP	38,5%	40,2%
Problems with the UN and others	Yes?	Yes
GNS as %% of GDP	25%	22%
Share of industry/agriculture in GDP	46% / 9%	31,2% / 2,4%
GDP per capita, USD	5800	36000
Public debt to GDP	31,5%	67%
Industrial production 2013 – 2016 growth rate	1%	5%
Market value of public equity per capita, \$'000	0	18,5
Exports per capita, \$'000	4,4	7,5

Few ideas for Belarus

- Small is good
- The natural niche – intermediary and transit position between the EU and Russia shall be exploited in full. DAFTA is not suitable, though there are ways around. Still the EU and openness of the market are more important long term
- Diversification of foreign trade is vital and inevitable
- Competition with EU can start with tax regime
- Competition with Russia starts with attractive domiciliation and labor conditions
- Debt is good, but using it for fixed capital accumulation is inefficient
- Services shall grow
- Nothing is bad in securities markets