



## THE DEVELOPMENTS IN THE ECONOMY OF BELARUS IN 2016

Belarus has a strategic location between Russia and the European Union (EU) and a well-developed transport system with a sufficient investment climate and highly skilled workforce. However, being highly dependent on Russia in energy, economy and finance and high state control on economic activities prevent to stabilize the economy. After a low growth path for years and increased macroeconomic volatility, the economy of Belarus entered a recession in 2015 and the economy contracted by 3.9%. GDP is expected to decline by 2.2% in 2016, but is expected to increase by only 1.5% and 1.3% in 2017 and 2018 respectively. Besides, low foreign demand for Belarusian goods caused a significant drop in Belarusian exports. In 2015, the value of exports amounted to \$26.6 billion, which is \$9.3 billion (26%) less than the previous year. This was accompanied by a decrease in imports of \$10.1 billion (25%). The largest drop in exports (30%) was to the Common Independent States (CIS countries) and Russia. Here, the main reason is the Russian crisis. Besides, the goods trade of Belarus with the EU fell by 19%, slightly more than \$2 billion in 2015.

Low exports also caused a serious deterioration in Belarusian industry. In 2015, 60% of Belarusian enterprises reported losses, or at most minimal profits. These enterprises include entities of considerable importance for the economy, such as MTZ (tractors), MAZ (trucks) and BMZ (engine production for heavy vehicles), all based in the capital, and the agricultural machinery production plant Gomselmash, located in Gomel.

On the other hand, the exchange rate depreciated sharply during 2015 and part of 2016. The Belarusian ruble depreciated by 23% in 2015 but the exchange rate is now more stabilized. In the second quarter of 2015 the National Bank of Belarus (NBB) recorded a current account deficit of 4.3% of GDP, which increased slightly to 4.9% in the first quarter of 2016. However, the depreciation of ruble has led to a decline in the real wages. In the fourth quarter of 2015 real wages fell by 3% and in January 2016, the average wages reduced by almost \$90 (to \$315). Besides, unemployment rate has risen, though it still remains at relatively low levels (0.9% in 2015 and 1% in 2016). The main reason for this low unemployment rate is that the government has been implementing a subprogram on assisting employment, which is a part of the government program on social security and employment promotion between 2016-2020. The main target here is to focus on the efficient use of labor potential in the framework of national employment policy.

On the other hand, the NBB is successful to reduce inflation by tightening monetary policy

and introducing monetary targeting. The inflation has been slowing down by reducing from 19% in 2015 to 17% in 2016. However, public debt has increased from 41.3% in 2015 to 46.4% in 2016. Weakening of banks' asset quality and profitability and increased number of troubled loans have resulted in rising non-performing loans in the banking sector. According to the NBB, since January 2016 the volume of problematic assets has increased by two times and reached 13.4%. The main reason for this increase is high losses of state-owned enterprises (SOEs). Another factor that causes public debt to increase is directed and subsidized loans which are used to support government programs. According to the International Monetary Fund (IMF) Financial Report 2015, their size increased from about 6% of GDP in 2010 to 9.3% in 2011 and then gradually decreased to about 4% of GDP in 2014. Directed lending also leads to high levels of non-performing loans in the banking sector. However, the gross external debt to GDP ratio fell from 58% in 2011 to 55% in 2015. It is 26.4% in July 2016.

In the public finance side, the government implements a conservative fiscal policy. The budget revenues mostly consist of oil revenues. Belarus is the world's third most dependent country on oil revenue and the share of oil products (which are produced with the oil supplied from Russia) in Belarusian exports is almost 30%. Another important source of revenue is the revenue from export duties on Belarusian petroleum. It is scheduled \$1.1 billion for 2016 but in the first half of the year because of lower oil prices and supply cuts from Russia, Belarus received only about \$390 million. In the expenditures side, in May 2016 the Ministry of Finance announced to cut budget expenditures by 7% concerning subsidies to local budgets and reduction of financial support to SOEs, excluding social expenditures (social benefits and medicines). The budget balance was 0.8% in 2015, due to reduction in revenues, it was 1.3% in 2016.

The government also conducts structural reforms, including restructuring SOEs. According to the latest data, 3662 SOEs take place in commercial organizations. They contribute almost 80% of industrial production and use approximately 60% of all investment in fixed capital in Belarus. However, despite their huge position in the economy, their financial performance has started to deteriorate considerably. For example, in 2012 the share of loss-making SOEs in the economy was only 4.8%, but in the first quarter of 2016 it increased to 26.3%. The main reason for this situation is the ineffective utilization of financial and capital assets by SOEs. To solve this problem, the government

can close the inefficient enterprises, privatize them or increase their effectiveness. Closing these enterprises can be costly. In order to increase their effectiveness, the government implements specific measures. For example, SOEs are obliged to reduce production costs by 25% and attract foreign capital; and the central government, together with the local administrations are to work on increasing the job opportunities in SOEs. Privatizing them is another choice. However, only 56 companies are included in 2016 privatization plan. The companies of strategic importance are excluded and planned privatization revenues are only expected to reach around \$20 million. Because the role of the private sector is limited in the economy (30% of GDP) and private firms' activities are administratively restricted in various ways.

The government has also been working with the World Bank to produce a Roadmap for Structural Reforms in Belarus since March 2015, which provided the basis for applications to loan programs with the Eurasian Fund for Stabilization and Development (\$2 billion) and the IMF (\$3 billion). The Government also approved 2016–2020 Action Plan aiming to regain competitiveness, reduce vulnerability to external shocks, and restore economic growth. These measures include reduction in government directed lending, implementing contemporary corporate governance practices for SOEs and negotiations for World Trade Organization (WTO) accession. Other reforms include accelerated development of high-tech industries in the next five years, including microelectronics, laser, bio - and nanotechnologies, creation of more than 250,000 new jobs mostly at small and medium-sized enterprises and competitive allocation of financial resources to take into account primarily the recoupment of capital investment.

To conclude, in order to enhance the effects of the economic policies and reforms, the following policies can be recommended: implementing a comprehensive reform strategy for SOEs to improve productivity and efficiency and reduce fiscal risks, improving the business environment, strengthening the fiscal framework to reduce public debt, implementing a cautious monetary policy to preserve macroeconomic and financial stability and maintaining exchange rate flexibility. However, in order to achieve a robust and sustainable growth path in the long run, these policies should also be supported by structural and institutional reforms which involve a broad set of measures which aim at attracting foreign investments, ensuring an efficient labor market and social protection systems and completing WTO accession.

## Politics, Foreign Affairs and Security

- During the 6<sup>th</sup> Meeting of the Economy Ministers of the Cooperation Council of Turkic Speaking States held in Baku, over 50 representatives from Azerbaijan, Turkey, Kazakhstan and Kyrgyzstan discussed the opportunities to expand economic cooperation among the Turkic speaking states.
- During his official Central Asian tour aimed at boosting economic relations with regional countries, the President of Iran, Hassan Rouhani, visited Armenia, Kazakhstan and Kyrgyzstan. During the meeting with his Armenian counterpart, Serzh Sargsyan, held in Yerevan, the sides discussed the issues of mutual interest inking five Memorandums of Understanding (MoUs) and cooperation agreements in different areas, including tourism, sports and culture. Additionally, after the official meeting with the President of Kazakhstan, Nursultan Nazarbayev, held in Astana, the parties signed five agreements for cooperation that covered areas such as livestock quarantine, shipping in the Caspian Sea, tourism and finance. Finally, as a result of the official meeting with the President of Kyrgyzstan, Almazbek Atambayev, held in Bishkek, the sides signed a Cooperation Pact for 2016-2026 and inked five MoUs and a cooperation agreement in the fields of information technologies, security, medical and cultural cooperation.
- During his official visit to Tashkent, the Minister of Foreign Affairs of Kazakhstan, Erlan Idrisov, and the President of Uzbekistan, Shavkat Mirziyoyev, discussed a wide range of issues focusing on prospects of boosting cooperation in such spheres as trade, investments and transportation.
- During his official visit to Baku, the Deputy Foreign Minister of Turkey, Umit Yalcin, and his Azerbaijani counterpart, Khalaf Khalafov, discussed the issues of development of bilateral relations, including the fight against terrorism and regional conflicts settlement.
- During his official visit to Islamabad, the Deputy of the Prime Minister of Uzbekistan, Ulugbek Rozukulov, and the Minister for Commerce of Pakistan, Khurram Dastgir Khan, agreed to expand trade-economic relations, including in agriculture, pharmaceutical, textile and other sectors.
- According to the President of the European Council, Donald Tusk, the European Union leaders agreed to extend economic sanctions against Russia over the Ukraine crisis until mid-2017.
- During trilateral talks held in Moscow, the Foreign Ministers of Iran, Mo-

hammad Javad Zarif, Russia, Sergey Lavrov, and Turkey, Mevlut Cavusoglu, adopted a joint statement on coordinated actions aimed at reviving political process in Syria.

- The UN Security Council has unanimously passed a resolution requiring the monitoring of evacuations from Aleppo. It was noted that the resolution would allow the UN to immediately dispatch some 113 monitors to evacuation points in Eastern Aleppo as well as areas in the city where the government has taken control.

## Economy, Finance and Energy

- The Asian Infrastructure Investment Bank (AIIB) announced that the allocation of a loan worth \$600 million for the Trans-Anatolian Natural Gas Pipeline (TANAP) project was approved. Moreover, the World Bank also approved a \$400 million loan for Turkey and a \$400 million loan for Azerbaijan for the TANAP project.
- According to the state-owned energy company of Uzbekistan, Uzbekenergo, a consortium of South Korean Hyundai Engineering and Hyundai Engineering & Construction won the tender on modernization of Takhiatash Thermal Power Plant. It was noted that within the project worth \$678.2 million, the South Korean companies would construct two combined cycle gas turbine units with the capacity of 230-280 MW by 2019.
- The Development Bank of Kazakhstan announced that the commercial production of Euro-5 fuel was launched in Western Kazakhstan. It was noted that the refining facility worth over \$78 million has a capacity of more than 200,000 tons of gasoline per year and will help cover the needs of the western regions of Kazakhstan in qualitatively high-octane gasoline.
- The President of Kazakhstan, Nursultan Nazarbayev, ratified the agreement on creation of the Low-Enriched Uranium (LEU) Bank in Kazakhstan. According to the agreement, the Bank will be a physical reserve of up to 90 metric tons of LEU, sufficient to run a 1,000 MWe light-water reactor. The Bank will host a reserve of LEU as an assurance of supply mechanism for the member states in case they cannot obtain LEU on the global commercial market.
- The Central Bank of Russia reported that the volume of money transfers from the country to Uzbekistan in the third quarter of 2016 reached \$644 million, which is 11.18% decrease compared to the same period of 2015. Meanwhile, \$20 million were transferred from Uzbekistan to Russia in the third quarter of 2016 while \$72 million

were transferred in the same period of 2015.

- The Government of Ukraine announced about its decision to nationalize PrivatBank, which is one of the country's largest banks, in order to ensure stability in the country's financial system. It was noted that the Finance Ministry of Ukraine would own 100% of shares of PrivatBank and would guarantee operations of the bank and safeguard the funds of its clients.
- The President of Russia, Vladimir Putin, signed the law on the country's federal budget for 2017. According to the budget law, the revenues and expenditures for 2017 will amount to 13.5 trillion rubles (\$218.8 billion) and 16.2 trillion rubles (\$262.5 billion) respectively. The deficit of the federal budget is projected to be 2.8 trillion rubles (\$45.4 billion) in 2017, with gradual reduction to 2 trillion rubles (\$32.4 billion).
- The Head of the Main Department for Risk Analysis and Control of the Azerbaijani Ministry of Taxes stated the Government's plans to write off tax debts of citizens in the amount of 624 million manats (\$348 million) from January 1, 2017.

## Society and Culture

- The Heads of Belorussia, China, Kazakhstan, Turkey and other Eurasian countries expressed condolences over the Russian Defense Ministry Tu-154 aircraft crash over the Black Sea. The Russian Tu-154 plane with 92 people on board crashed en route to Syria's coastal province of Latakia. Most of the passengers were members of the Alexandrov Ensemble traveling to Russia's Hmeymim airbase in Syria to take part in New Year celebrations.
- The UN Refugee Agency (UNHCR) and the Turkish International Cooperation and Development Administration (TIKA) agreed to build a canal basin worth \$62,000, which will supply water to two villages of Mirmakhmudov and Kara-Tash in the Osh region of Kyrgyzstan.
- The Chairman-in-Office of the Parliamentary Assembly of the Turkic-Speaking Countries (TurkPA), Nurlan Nigmatulin, and Speakers of Parliaments of Azerbaijan, Turkey and Kyrgyzstan participated in the official opening of a new administrative building of the TurkPA Secretariat in Baku.
- The President of Kazakhstan, Nursultan Nazarbayev, signed the law on amendments to the law on suspension of some provisions of the Land Code of Kazakhstan, which prolongs the moratorium on application of some provisions of the land legislation.