[The Midterm Exam for the Economy: Digest of Belarus Economy]

On 19 July 2016 the National Statistic Committee of Belarus (Belstat) has announced the macroeconomic results of the first half of the year. The figures disappoint – economic growth still in the red zone.

Moreover, the Eurasian Development Bank has warned that the Republican budget requires additional cuts in order to sustain the acceptable level of state debt.

Finally, on 27 July 2016 the new round of Belarusian-Russian negotiations on gas prices and gas debt payment was held in Moscow.

Economic Growth: Leaving Plans for Christmas

In the first half of the year, the government planned to withdraw the economy from recession. However, actual results still dissatisfy. According to Belstat for the first half of 2016 GDP of Belarus has decreased in comparison with the previous year by 2.5 per cent and once again missed the official forecast this time by 2.6 per cent.

Such a reduction of economic growth still took place together with the weak domestic demand and demand from Belarus's major trade partners – the exports of goods dropped almost by fifth part accompanied by a significant slowdown in the growth of the physical volume of industrial production (see figure 1).

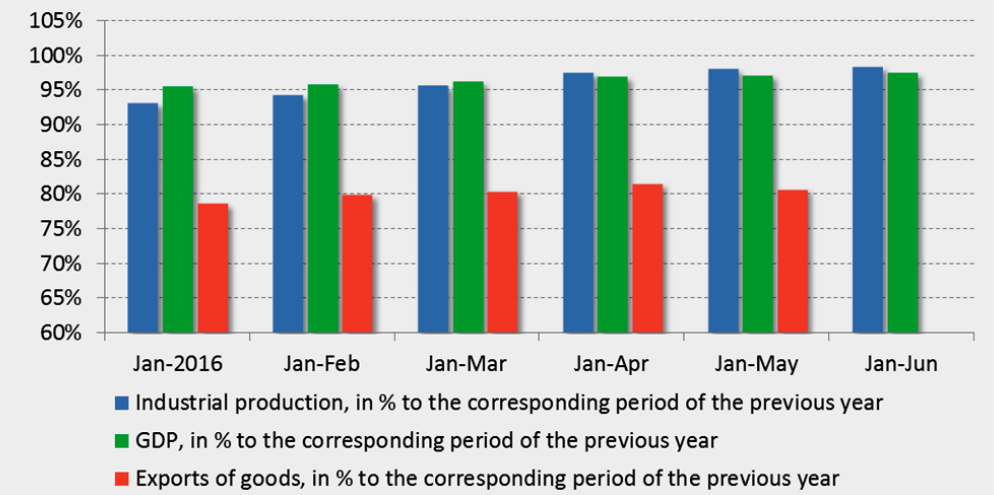

Figure 1. Economic indexes

Meantime, Belarus' officials still have an optimistic view on the assessment of current macroeconomic situation. On 26 July 2016 the Prime Minister Andrei Kobyakov has announced that in the first quarter of 2016 the plan for creation of new jobs was exceeded by almost 2 times.

However, according to Belstat the number of work places in Belarus continues its reduction eight month in a row. In the first half of the year 341 thousands of Belarusians lost their jobs and outperform the number of employed by 81 thousands.

Additionally, the attraction of foreign investments in Belarus show little progress. For example, the number of new residents in the widely boosted Chinese-Belarusian industrial park "Great stone" still has not increased.

For two previous years the "Great stone" has attracted only eight residents and in the first half of the 2016 – zero. Moreover, only few currently registered residents began to implement the announced projects.

One of the main reasons that restrict the flow of foreign investments in Belarus tried to explain the British Ambassador in Belarus Fionna Gibb. She thinks that the Belarusian authorities do very little to overcome such situation. According to her, British companies avoid investment, because our country remains quite a closed country and business is not ready to take big risks.

State Debt: Resetting the Race

By the end of June the international reserves of Belarus increased by 7.3 per cent in comparison with first month of the year and amounted to $4.8bn (see figure 2). This number has already outperformed the official forecast for the whole year by $24m indicating the success of monetary policy realized by NBB in recent month.

However, this amount of international reserves remains at one of the lowest levels in recent years, which indicates that Belarus still possesses inadequate resources needed for the maintenance of its economy, and makes the problem of attracting additional capital not only from Russia still very difficult.

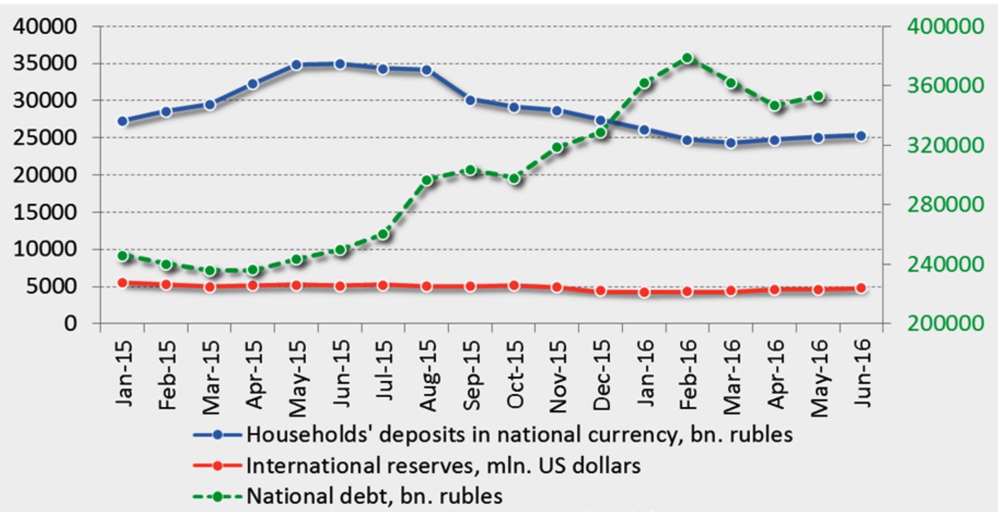

Figure 2. Reserves, deposits, debt

On the same time after two month of decline the state debt of Belarus has resumed its growth increasing by 7.4 per cent in comparison with the start of the year. The main source of growth falls on its external part taking into account the first $500m tranche of credit from the Eurasian Fund of

Stabilization and Development.

However, in the second half of the year the internal part also will add up some additional pain. According to NBB since the beginning of year the volume of problem assets in banking system has increased by two times and reached 13.4 per cent growing already for eight months in a row – a historical maximum for the Belarus.

This situation occurred due to substantial granting of loans on preferential terms for mostly loss-making enterprises. In order to solve this problem the government will be forced to increase borrowings in the internal market.

Energy Sector: Monetizing the Negotiations

Meantime, on 27 July 2016 the new round Belarusian-Russian negotiations on gas prices and gas debt payment was held in Moscow. According to Russian side the debt of Belarus for gas has reached $270m since the beginning of the year.

Belarus' authorities believe that the price should be lower since energy prices are getting cheaper on the world market. Besides that Russia itself has lowered price for some consumers, for example, Armenia, but unwell to reduce price for Belarus.

Price for 1 thousand cubic meters of gas for Belarus is $132. While Belarus considers a fair price equal to $73. The main argument of Minsk stays the intergovernmental agreement in which it is written that for Belarus should be applied equal prices (export price minus transportation).

Meantime, in order to force the decision Russia has reduced oil supply to Belarusian refineries by 37 per cent. Due to such a sudden strike estimated losses of Belarus may rich additional $200m per quarter significantly outperforming the amount that Belarus saves on the price of gas.

Furthermore, the negotiations were complicated due to extra conditions that Russia put forward, namely to revive the previously announced privatization projects (MAZ, Grodno-Azot and other enterprises).

Summing up, the government still waits playing with gas bargaining and new coins arrived after denomination occurred on 1 July 2016. While it helps to avoid painful structural reforms and spend some time in the shuffle, it still little contributes to restore the shrinking economy.

Moreover, such situation may additionally transform into even harder problems in the next year – slowing down economy driving at a first gear cannot easily switch to higher one without improvements in labour productivity, innovation and entrepreneurship.

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