

Under pressure from Eurasian Economic Integration – digest of the Belarusian economy

As of 26 December 2016, the oil and gas dispute between Belarus and Russia remains unresolved.

Moreover, Russia persistently rejects any tradeoffs: this deprives Belarus of a substantial part its foreign exchange earnings from petroleum product sales, thus aggravating the economic recession in Belarus.

In turn, the growth of state debt points to the formation of stable insolvency for most state-owned enterprises and increases the risk of a banking crisis in the economy.

The energy sector: losing ground

The current oil and gas dispute between Russia and Belarus has deteriorated since the beginning of the year. Minsk has decided to pay its own gas price of \$73 (a fair price which conforms to the agreement on the transition to equal-income prices between countries). However, the contract claims that the price should be \$132.

As a result, according to the Russian gas monopoly Gazprom, Belarus owes approximately \$340m for gas deliveries from January to September.

In response to this debt, Russia decided in the middle of the year to nearly halve the quantity of oil supplies to Belarusian refineries: from 5.3m to 3.5m tonnes in the third

quarter of the year, and to only 3m tonnes in the fourth quarter. Moreover, on 23 December 2016 Deputy Prime Minister of Russia Arkady Dvorkovich announced the court proceedings on the gas dispute.

Meanwhile, after some improvement at the end of last year and in the first quarter of this year, the country's economic growth has worsened again. One of the main reasons for this is the reduction in the amount of Russian oil processed.

According to Prime Minister of Belarus Andrei Kobyakov, the loss of 1.6m tonnes of oil in the third quarter has led to a chain reduction in industrial production and wholesale trade resulting in a 0.3 per cent GDP drop. By the end of 2016, this drop could reach 0.5 per cent (see Figure 1).



In turn, this reduces the real income of the population and effective demand within the country, thus creating preconditions for the formation of deeper systemic problems in the economy. For example, the number of foreign companies to close [has overtaken the number of newly registered ones](#) in Belarus in 2016.

Economic integration: a time of tough decisions

The main Belarusian argument in the energy dispute is grounded in the process of Eurasian integration, which implies four key economic freedoms for the participants in the Eurasian Economic Union (EAEU): free movement of goods, services, capital and labour.

However, this integration project includes various exemptions and limitations. In particular, the plans for the formation of a single energy market has been delayed until 2025.

At the same time, the creation of a common electricity market for the EAEU is scheduled for mid-2019. However, Russia and Belarus must first reach a compromise. Since Belarus produces electricity mainly from gas, the country urgently needs equal prices with the Russian regions by 2019.

However, Russia has so far shown few signs of willingness to radically amend its position (by transitioning to equal-income prices); it is offering to compensate only \$300m a year for the difference in gas prices and only through resale abroad of part of the Russian oil supplied to Belarusian refineries.

This scheme thus reduces the oil flow to Belarus, as well as the amount of petroleum products produced from it, further decreasing its foreign exchange earnings. Moreover, Russia wishes to determine the volumes of oil supplies to Belarus on a quarterly basis, increasing Belarus's economic dependence even further.

In addition, Russia may insist on other tough conditions, including a requirement to [redirect the export of oil products](#) from Baltic to Russian ports and to sell the Minsk Wheel Tractor Plant – a very important asset for the Russian defence industry.

State debt: missing the target

The problems in the energy sector put pressure on the internal and external debt of Belarus. In particular, in 2017 Belarus may have to return approximately \$3.5bn to its creditors.

At the same time, the economic slowdown in Russia (the main trading partner of Belarus) has led to the weakening of external demand for Belarusian products. As a result, export earnings have decreased and a substantial part of enterprises transfer from profitable to unprofitable, further limiting the ability of Belarusian enterprises to finance their debt obligations.

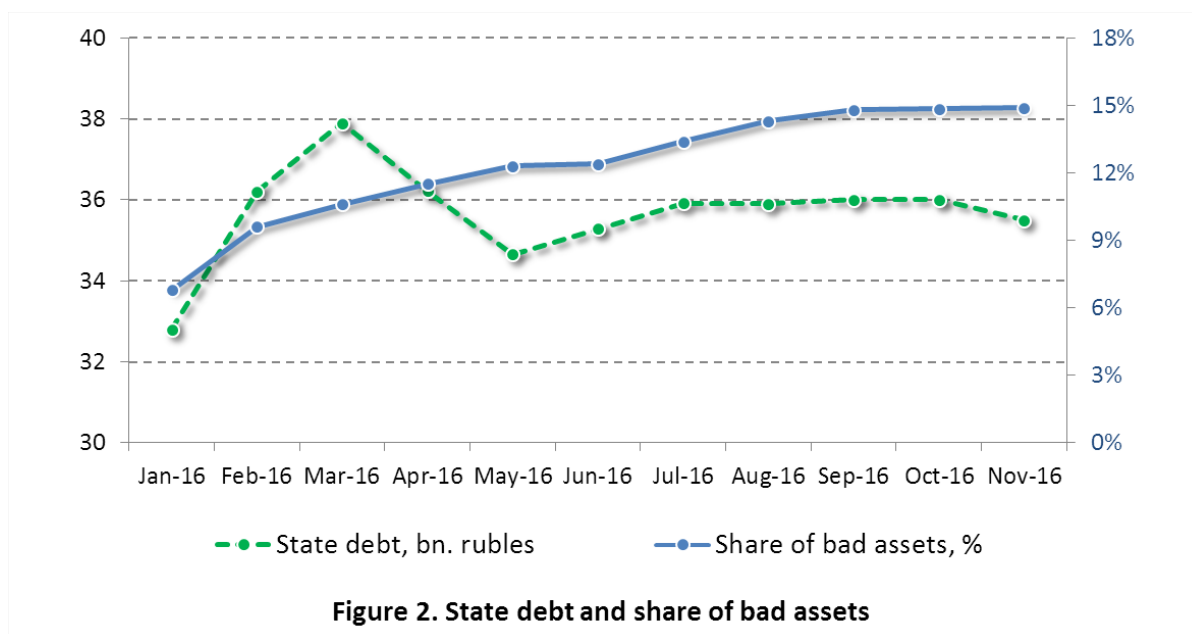
On 15 December 2016 Alisher Mirzoyev, the Director of the project group on financial loans of the Eurasian Fund for Stabilisation and Development, stated that the decrease in efficiency of state-owned enterprises (SOEs) and the low efficiency of long-term projects financed primarily through directed lending have formed a significant part of the debt burden in Belarus.

The directed lending has created large imbalances in the economy. For example, interest rates on preferential loans in 2015 reached only 9 per cent versus market rates of around 35 per cent. Therefore, according to the Deputy Minister of Economy of Belarus Dmitry Krutoy, in 2016 the volume of directed lending has decreased almost by half (from \$20bn) in comparison with 2015.

However, risks of insolvency of SOEs still lead to loss of revenue for the country's budget. Moreover, deterioration of the financial conditions of SOEs lead to an increase in problem assets of the banking system and exacerbate the problem by creating an additional crisis in this sector of the

economy.

For example, since the beginning of this year [the share of problem assets of Belarusian banks](#) has increased by 2.2 times. If at the beginning of January they constituted only 6.8 per cent of risk assets, in November they reached 14.9 per cent (see Figure 2).



Thus, the problems in the energy sector aggravate the economic recession in Belarus further, affecting the capabilities of profitable enterprises to repay their debts and harming the overall investment attractiveness of the country.

Aleh Mazol

Belarusian Economic Research and Outreach Center (BEROC)

This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

The Long Road to Liberalization: Digest of Belarus Economy

On 29 March 2016 Prime Minister Andrei Kobyakov proclaimed the government's intention to speed up the long-awaited process of joining the WTO.

Moreover, after renegotiating different scenarios for pension reform in Belarus, the authorities have agreed to an increase in the retirement age for men and women.

Meanwhile, on 21 April 2016 President Alexander Lukashenka announced that it would be a tough year for the economy, all the while encouraging the government to accelerate its attempts to develop the economy.

WTO: Reforming the Negotiations

On 29 March 2016 Prime Minister Andrei Kobyakov announced that in the near future Belarus jointly with the WTO team would formulate final proposals and terms for the accession to the organisation. In September 2015 Belarus agreed to a WTO roadmap that includes negotiations with 40 countries.

Belarus has been trying to join the WTO since 1993. However, it is only now after almost a quarter of a century that the authorities have finally made the tough decision to speed up this process. The Belarusian government has taken such an "extraordinary" forward looking decision under pressure from the significantly negative internal and external macroeconomic shocks.

A [prolonged economic recession](#), the [skyrocketing negative trade balance with China](#), increased disagreements with Russia, the country's main trade partner, and the successful accession to the WTO of the other four members of Eurasian Economic Union (EEU) trade bloc prompted the Belarusian side to take the decision.

Moreover, Belarus has already met a substantial number of the WTO obligations by virtue of the participation of other EEU states in the trade organisation, including reduced customs tariffs and financial support for state-owned enterprises (SOEs).

At the same time, some trading partners are increasing import tariffs for Belarus, while others are still avoiding signing bilateral trade agreements with Belarus (for example, China). Therefore, in order to challenge tariff barriers and trade restrictions, accession to the WTO is becoming an irreversible process and one of the main challenges for the state.

Pension Reform: a Gradualist Approach

On 11 April 2016, in an effort to preserve the existing ratio of workers and pensioners, Lukashenka signed a new decree that increases the retirement age for the working population in Belarus. From 1 January 2017 the threshold for retirement will gradually increase by six months each year until it reaches 63 years for men and 58 years for women.

The [demographic problem](#) is the main reason for this reform. In Belarus there are ten people of working age for every four pensioners; by 2035, this number will increase to six. As a result, according to the Deputy Minister of Labour and Social Security Valery Kovalkov, from 2020 this trend will lead to an additional substantial burden on the budget. Thus, in order to

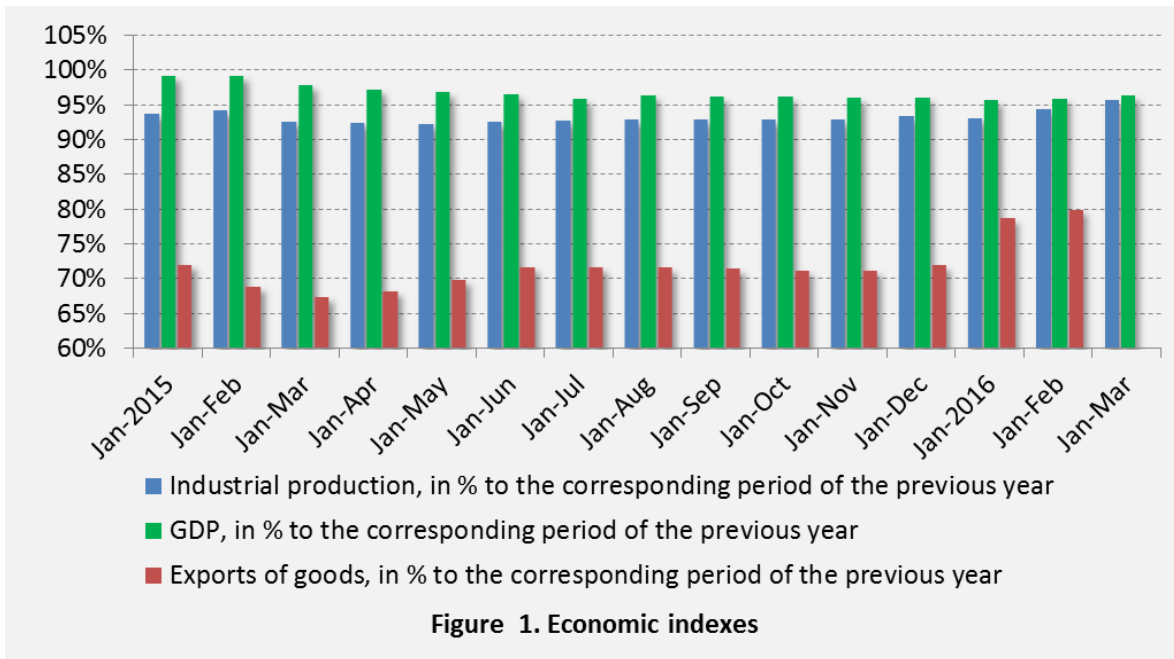
solve this problem the government is encouraging economic entities to hire elderly candidates.

However, experts express doubts about the interests of employers in accomplishing such a task. According to Svetlana Korosteleva, director of consulting company Kvadrat, in Belarus there exists an unspoken age limit for new workers – approximately 45-50 years for both sexes. In most cases employers "fear" that older applicants will not be up to date with industrial trends, will have poor computer skills and perform tasks slowly.

Moreover, business owners that grew up in the 90s seem particularly "vulnerable" to age discrimination as they tend not to hire new specialists over 35 years. But such a "modern" practice of Belarus's businessmen strongly violates national labour legislation, which prohibits weeding out candidates by age, gender, eye colour and other traits.

Economic Growth: Escaping from Dreams

According to an analysis by Standard & Poor's (S&P) carried out on 10 April 2016, the additional economic problems that Belarus is experiencing are due to the low predictability and efficiency of its institutional system, the very weak external economic position of the country and a lack of flexibility of its monetary policy. S&P experts also believe that Belarus will continue to experience an economic downturn (see figure 1).



Later, on 14 April 2016, the IMF in turn revised its forecast on the Belarusian economy. IMF experts think that Belarus's GDP growth in 2016 will decrease by 2.7 per cent, which significantly differs from their October 2015 estimates that predicted a contraction of 2.2 per cent.

However, the Belarusian authorities still forecast positive economic growth for this year. But in the past five years the government has accomplished none of the most important socio-economic indicators it identified. For example, official forecasts [assume five-year economic growth](#) equal to 62-68 per cent, but real figures foresee results more than ten times lower.

This has happened mostly due to the prescriptive, declarative nature of such indicators. In most cases local authorities consider such orders as non-binding obligations that do not correspond with economic reality.

In order to break up such a vicious circle, on 5 April 2016 Prime Minister Andrei Kobyakov announced substantial efficiency improvements in resource use by enterprises. From now on, a return on every rouble of investment constitutes one of the main goals of the new government's economic program for

2016-2020.

Additionally, the government has banned the popular practice of local authorities establishing prescribed economic indicators for state and private enterprises, which presupposed accelerated growth rates in previous years.

Thus, after two decades of "easy" solutions to big problems, Belarus seems to be reversing its economic course in the direction of a more liberalised economy, at least in the labour market, trade policy and management of SOEs. But further, inevitable decisions are still waiting for the right moment.

Aleh Mazol, Belarusian Economic Research and Outreach Center (BEROC)

This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

Recent IISEPS Polls: Belarusian Society Slowly Matures

In early January 2014 the Independent Institute of Socio-Economic and Political Studies (IISEPS) published its December 2013 poll results for various domains of public opinion.

Though some people, including opposition politicians and activists, doubt this institute's ability to handle a proper social survey in an unfree society, most Belarusian experts and analysts trust their data.

The results of the latest poll suggest that Belarusians show certain signs of a gradual "maturing" as a society.

In the economic realm respondents tend to be pessimists, blame the government and the country's ruler for its failures and show high demand for market reforms. When speaking of foreign policy, more and more people prefer the EU to Russia and support the authorities when they clash with their eastern neighbour.

At the same time, the support rate of Alexander Lukashenka have fallen, but the opposition did not manage to gain any points from it.

Economic Pessimism and Blaming Lukashenka for Crisis

The IISEPS poll indicated a further deepening of people's pessimism with the state of the economy and the prospects of their own welfare. Almost 69% of the respondents agreed that the Belarusian economy is going through a [crisis](#). The numbers have worsened since the previous IISEPS survey, which was conducted in September 2013 (57% that time).

A considerable 12% pessimistic shift in the numbers can be explained by salary growth freezing at the end of the year, the authorities' plan to cut budget spending, several rather doubtful governmental fiscal initiatives that were recently announced (like auto-owners tax, \$100 [exit-fee](#) and "sponger-tax"), a gradual devaluation of the national currency etc.

The number of people awaiting the situation to [worsen further](#) has become nearly three times higher than the number of economic optimists (36% vs. 12.5%).

When asked who is responsible for the crisis and whom they rely on to resolve it, Belarusians came up with the following responses.

**Whose fault is the current
crisis in Belarus?**

Rank	Subject	%
1	President	45
2	Government	42
3	Parliament	19.6
4	People	16.3
5	The USA	15.5

On whom do you rely in overcoming the crisis?

Rank	Subject	%
1	President	36.8
2	Russia	27.8
3	Entrepreneurs	25.7
4	West	22.7
5	Government	21.3

Blaming the head of state and government for the crisis represents the majority's immunity to the state propaganda, however, combined with a certain amount of paternalism – they maintain hope that Lukashenka and foreign countries will play a key role in overcoming the crisis.

Of all the results of the survey, what appears to be most surprising in a generally paternalistic Belarusian society is the number of market reforms supporters has reached 60% (46% among those who trust Lukashenka). These figures, meanwhile, can deceive because the history of market transitions in other post-soviet states shows that the reforms' support falls after people feel the first painful consequences which inevitably accompany any economic liberalisation policy.

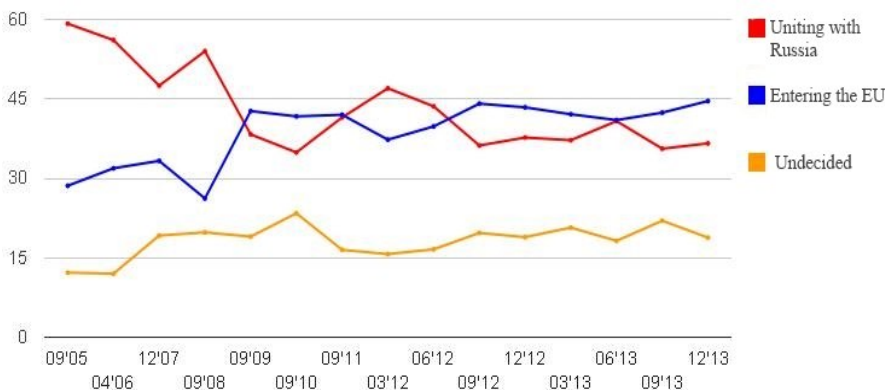
All in all, the ongoing failures of the Belarusian "socially-orientated" economy has people disappointed with the

government and has them beginning to recognise the need for changes and market reforms in particular.

Pro-Russian Moods Gradually Fade Away

The poll also confirmed another trend continuing: more people prefer EU to Russia if asked about with whom it would be better to integrate. 45% have chosen EU, while only 37% – Russia.

What would you prefer: Uniting with Russia or entering the EU?



At the same time, 45% agreed that Belarus should change its policy to become closer with the EU, with only 22% disagreeing with this position.

One further result that can be derived from this issue seems quite surprising: 39% claimed they do want to see more Russians coming to live in Belarus (only 24% held the opposite view and 33% held no position one way or the other). Analysing this data, one must take into account that Belarusians are generally known as a tolerant nation, most of them speak Russian. Moreover, full freedom of movement became one of the most notable, if not the only achievement of so-called Union State of Belarus and Russia.

Belarusian authorities enjoy rather high approval rate with regards to their stance in the latest conflict with Russia (known as the ["potash war"](#)). Only 13.6% blamed Belarus for

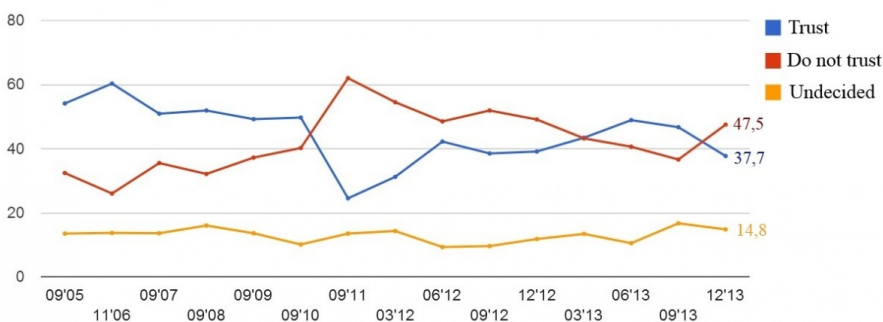
starting the conflict and only 25% disapproved of the [arrest](#) of the Russian potash giant "Uralkali" CEO Vladislav Baumgartner.

As the years go by, the number of pro-European Belarusians gradually increases, while the number of pro-Russian ones continues to decline. This remains true despite all the anti-Western propaganda in the state media, the officially announced course towards [Eurasian integration](#) and the vast annual economic benefits being reaped in from Russia. So, one could only guess what the situation will be given these factors cease to exist in the future.

Opposition Cannot Catch the Points Lukashenka Loses

The decline in support and trust in the Belarusian ruler was another unexpected result of the December poll. Both figures have shown relatively stable growth for the last two years (after the 2011 economic crisis).

Do you trust current president?



What concerns the electoral support rate, less than 35% of Belarusians would have voted for Lukashenka in December 2013 (after 37,3% in June and 42,6% in September). The primary reason for this decline is, naturally, the government's economic failures. As was demonstrated in the first paragraph – people tend to blame the country's leader for the crisis.

The swift increase in the figures from September occurred right after a particularly active phase of the above mentioned

potash war. Insofar as public opinion was generally positive with the Belarusian government's actions in this conflict, Lukashenka, praised by state TV as a fighter for sovereignty and national dignity against insidious Russian oligarchs, gained some points. With three months having already passed, the "nation's defender" image has faded.

All of Lukashenka's problems with public support contribute little to the [opposition's own popularity](#). Support rates for opposition leaders do not go any higher than 3% except for two ex-candidates for the presidency: the head of civil campaign "European Belarus" [Andrei Sannikau](#) (3.2%) and a poet [Uladzimir Niakliaeu](#), leader of "Tell the truth" campaign (7.1%).

[Aleh Manaev](#), the head of IISEPS, in one of his latest interviews explained Niakliaeu's relative success by the "Tell the truth" strategy to concentrate their activity on pertinent social issues. Many other opposition structures choose to promote a purely political and human rights agenda, which remains unpopular among most of Belarusians.

Thus, even the aggregate rate of all the opposition leaders remains far behind Lukashenka's own declining figures. Moreover, trust in the opposition parties in general (16%) appeared to be lower than the level of trust to KGB (34%), courts (35%), police (35%), the Central Election Committee (32%) and even to the utterly passive pro-government political parties (20%).

As always, the IISEPS poll reveals a wide range of public opinion trends, which seem difficult to summarise in a single unified conclusion. In general, Belarusians, against all the existing odds, show signs of slow maturing as a society: appreciating their sovereignty more, detecting the government's fault in the economic crisis, striving more for European integration and market reforms.

Unfortunately for the opposition, its leaders fail to be in tune with people, often proposing them an agenda too divorced from their actual needs and ideals.