

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).



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.



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 unwilling 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 reach 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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The Way They Do Reforms in Belarus: Actions, Framework, and Foreign Partners

Before the elections, many publications dealt with the subject of reform in Belarus. The analysis revolved around the post-Soviet space analysing the explicit degradation of the era of a commodity economy. This means that all these states will have to change, including Belarus.

Minsk has already signalled by its actions its intention to change many things in its economy and politics. It is not only about its participation in the Ukrainian events. Belarus has taken seriously the optimisation of economic processes.

Specific Actions They Do Not Call Reforms in Belarus

Lukashenka said clearly during his inauguration ceremony that reforms were a “destruction of the foundations of the state system”.

In terms of the Belarusian ruling elite, the words “reforms” and “reformism” are almost identical to the word “evil”. For

Lukashenka, a declaration about the need for “structural reforms” would be equal to a declaration “I have been wrong, and my policy is inefficient”. Instead of these “bad” words, Lukashenka uses “modernisation”, “development”, “improvement”, “transformation” and other similar words.

Thus, the “reforms” applicable to a Ukrainian scenario are hardly possible in Belarus. There will be no discussion or debate. Nor will the regime use the word “reform” (at least, in language most of the population understands). Whether any deeds will follow is another question.

The sanctions have been and remain the key problem for Belarus. This is not only an issue of trade. The imposition of sanctions limits investment opportunities and obtaining long-term cheap loans. Besides, what is most important, is the need for Belarus's to engage in scientific cooperation and technology exchange. For now this remains impossible. However the problem's resolution is near. The United States has actually lifted most restrictions it imposed, and the European Union has [suspended sanctions](#).

Moreover, even prior to the formal lifting of sanctions, the restrictions on scientific cooperation were cancelled. As a result, during the spring and summer of 2015 Belarus entered into projects in the framework of the Horizon 2010 programme, it joined the Bologna Process unexpectedly and intensified cooperation with the European Research Council.

Belarus carries out an interesting policy towards Ukraine

Belarus carries out an interesting policy towards Ukraine in the unusual role of a donor. The Belarusian State Committee for Science and Technology, together with the Ukrainian Ministry for Education and Science, launched joint research programmes. The list of topics includes optics, new materials, bio-technologies, pharmaceuticals, computer science, energy and energy efficiency. Publications analysing “Belarusian

reforms” called all of them a priority in the “new economy of the country”.

Money, Reforms, New and Old Partners

At the turn of 2005-2006, when Russia’s influence on the economy became extremely important, Belarus understood that the commodity economy would not become successful. Since then, Belarus has started a gradual movement towards seeking a counterweight to Russia. The Belarusian authorities are trying to find new options and allies beyond the usual East – West axis. In particular, they are working on the development of ties from the Baltic to the Black Sea, along the North – South axis.

Besides, they are trying to work [among the old members](#) of the European Union. However, a number of problems remain. The traditional “power centres”, Germany and France, are rather strongly linked to Russia.

Here, a new partner of Belarus has emerged, the United Kingdom (UK). By trade volume the UK has unexpectedly become Minsk’s second foreign trade partner. Besides, “friendship” with the United Kingdom is facilitating an intensification of cooperation with almost two dozen further countries which are members of the British Commonwealth. These countries are ready made money, technology, and sales markets. Significantly, exports to the Commonwealth countries grew by \$2.431 billion during the first 8 months of 2015 in comparison to 2014.

Ukraine’s attempt at European integration opened a window of opportunities to Lukashenka. Further developments and Belarus’ own competent policy have extended it. These are the issues of

sanctions and foreign trade. The dynamics of trade turnover between Belarus and the European Union appear much more promising than the path of "going to Europe" which Ukraine has embarked on.

In sum: Belarus understands that there will be less money and works on plans to get access to the funds. So far it has managed to achieve an increase in funding. In parallel, it is growing a network of political connections and the weight of its political lobby, and this is against a backdrop of a collapse of its neighbours' influence. There is one small thing, an efficient state.

It Is All about People

Now, let us talk about the managers. Indeed, the "quality" of most Belarusian managers remains poor. However, here we face some interesting facts taken from the practical activities of the country's leadership.

Both presidential advisor on economic matters [Kiryl Rudy](#) and deputy head of the Presidential Administration [Mikalaj Snapkoŭ](#) made their statements at the [October Economic Forum](#). Interestingly, independent research centres organised this event. The authorities see most of these centres as an "opposition". Just a year ago, it was impossible to imagine even the very fact of this kind of forum being held in Minsk, let alone a statement by a top official of the Presidential Administration.

The Belarusian authorities gently engage clever "opposition activists" in a dialogue

In Belarus, the MOST programme started unbeknown to many, the financing of 500 visits of stakeholders and managers in different spheres (NGOs, business, authorities, and research) to the European Union to establish partnership relations. The

number of participants is 1,500 people. Such a scale in the framework of Belarus could entail important changes.

The Belarusian authorities gently engage clever “opposition activists” in a dialogue. The question is not about the participants in the presidential elections, rather there is silence there. The authorities invite those who generate ideas on the country’s development, as well good analysts, to participate in discussions and closed meetings.

Thus, the situation with personnel policy is also very interesting. A statement of fact is that there is a shortage of personnel. And there are signs of work in this area.

Quick Solutions and the Slogan “No to Reforms”

As Kiryl Rudy said at the October Economic Forum, “One can get an official answer whether the reforms will happen in 2016 only from the official documents and decision of the head of state”. Let us use this recipe. I will cite a few facts, which happened during the last few weeks.

In 2016, concessional financing and subsidies will be significantly reduced. Those who will still be able to raise funds will survive. The others will undergo restructuring through bankruptcy. The same will happen to agriculture.

The National Bank and the Ministry of Finance pursue a rather tough policy on the rehabilitation of the financial system

The parliament is considering a draft law on transitioning from a planned economy to “indicative planning”. The National Bank and the Ministry of Finance pursue a rather tough policy on the rehabilitation of the financial system, as well as declarations (including those of Lukashenka) about the

“inappropriateness” of getting “expensive” money on foreign markets.

The topic of “financing” should also include such an instrument as the public-private partnership, which is expected to be enacted in legislation in 2016.

Since 2016, Belarus will have new money in circulation. The redenomination will take place, which includes the introduction of Belarusian coins. Automatically, it means giving up the opportunity to use inflation to control the economy.

Back to the Question: Will There Be Reforms in Belarus?

The point is simple, the regime will not change one iota politically. It will be the same authoritarianism. As for the economy, we are unlikely to hear loud statements about “Belarusian reforms”. How should we call what is happening today?.. Fundamentally, it does not matter.

On the other hand, people in Belarus will fail to feel a positive effect in the coming years. After all, if one proceeds from the thesis of economic reform, the quality-of-life forecast for an average Belarusian is negative for 3 to 5 years.

And even in Belarusian conditions, the reforms will not give a positive effect before 2020. Incidentally, this is a dig at populist reformers who say that a “people’s paradise” will happen soon in Ukraine. There has been not a single country in the world where structural reforms gave an instant result.

In any case, it will be interesting. One country is being publicly “reformed”, with beautiful slogans, TV shows and political battles. The other one seems to be against the

reforms but it does something. It is an interesting question to what will be the result?

Ihar Tyshkievich

IMF Negotiations, Denomination, Drunk Cossacks – Belarus State Press Digest

The Belarusian leadership negotiates reform plans with the IMF mission and is ready to gradually introduce more market-oriented policies. The new denomination of the national currency will bring in new banknotes in 2016, and Belarusian coins will appear for the first time since the collapse of the USSR. Belarus needs venture funds and new legal regulation to enhance the support of startups.

The authorities plan to punish people who write too many complaints to public organisations. The police cooperate with a civil-force organisation, which was used in the Soviet period. A group of Cossacks were convicted and jailed for hooliganism.

All of this and more in this edition of the Belarus State Press Digest.

[IMF reform offer is not rejected.](#) *Belarus Segodnia* reported that there was a meeting between president Lukashenka and the chief of the IMF mission in Belarus, Peter Dolman which removed many misunderstandings. However before the negotiations politics often interfered into the economic and political negotiations, but now the sides have reached a

mutual understanding. Minsk accepts broader introduction of market principles, which can be seen in the example of the increasing price of public utilities.

The same issues concern privatisation, as Belarus continues to look for the best owner of particular pieces of state property. However, Lukashenka emphasised that Belarus is not going to quickly destroy the existing system of the social state and so gradual economic reform is the only solution. The IMF seems to understand this principle, the newspaper says.

✘ [Coins come back to Belarus after 25 years.](#) *Narodnaja Hazieta* writes about government plans to newly denominate the national currency. It is scheduled for 1 July 2016 at the rate of 10,000 to 1. The new design of the banknotes has already appeared in the media. The new banknotes resemble the euro, but have preserved the same concept of images as the earlier Belarusian Rouble. They will also have the architectural monuments on them.

The monuments on banknotes come from each of the six regions of Belarus and the capital of Minsk. Moreover, Belarus will introduce coins, rubles and kopek, for the first time since USSR's collapse. The banknotes are interesting from an identity viewpoint, since most of them display medieval monuments, respected by the nationally oriented part of society. Two new denominations have already occurred in Belarus in 1994 and 2000.

[Overly active complainants will be fined.](#) *Znamia Yunosti* writes about amendments to the Law on the Appeals of Citizens, which introduced punishment for people who see complaint writing to public organisations as a part of their lifestyle. The government will fine those who complain without having serious grounds. Such complaints are especially widespread in housing, public utilities and healthcare.

The director of the Minsk state dental clinic, Aliena

Daškievič, shares in an interview with the newspaper that her colleagues dream of this law becoming effective. In Belarus, where public control of the state has hardly ever existed, complaints remain the only channel for citizens to reach officials with their problems. However, many dissatisfied Belarusians, particularly the elderly, continue to write letters to these organisations and therefore seriously annoy bureaucrats.

[Why startups receive too little support in Belarus.](#) *Narodnaja Hazieta* asks Aliaksej Šabloŭski, the director of Centre for Entrepreneurship Support 'Startup Technologies', why the ideas of Belarusian programmers receive high acclaim abroad but little financing at home. According to him, Belarus has certain niches for new technologies but its domestic market is too small, so programmers prefer to work abroad.

Belarus also needs to develop an effective system of entrepreneurial support: technology parks, business incubators, venture funds and private investors. The country urgently needs legislation to regulate the creation of such a system. However, the expert concludes that since startup funding remains quite new in Belarus, the country also needs time to let it grow.

[Internet project Green Map will map the environmental spots of Belarus.](#) *Zviazda* newspaper informs its readers that the project of the Centre of Environmental Solution, the Belarusian green NGO, seeks volunteers for their Green Map project. Earlier, the e-map included the spots which collect recycling materials, dangerous waste and second-hand material for further use. The updated e-map will create three new blocks: the addresses of organisations which provide environmental information and consultation, existing renewable energy projects, and natural zones in cities and nearby areas. Today the project unites 26 Belarusian cities and is expected to cover all cities with the help of volunteers.

[Russian Cossacks sentenced to prison.](#) *Vecherniy Brest* reports that three participants of the horse ride from Moscow to Berlin who crossed Belarus this summer, received prison terms after a trail lasting a few months. In a state of alcohol intoxication they beat a student of Pinsk agrarian college.

The conflict occurred after the Cossacks started to harass girls in the college dormitory where local authorities hospitably accommodated their Russian guests. The Cossacks who organised the ride say this was a big disgrace for their organisation and they will punish their colleagues after they finish serving prison terms in Belarus.

[Civil support of police thrives in Mahilioŭ.](#) *Vecherniy Mogiliov* reports that this year voluntary squads (družynas) took an active part in the enforcement of law together with the Mahilioŭ police. Družynas emerged in the USSR in the 1950s to assist police at the local level and still function in Belarus until today. They can be seen in the streets wearing red armbands.

This year the Mahilioŭ družynas have detected a few hundred administrative and some criminal offences. They have also conducted numerous preventive meetings with vulnerable social groups. An active member of the družyna, Valer Prudnikaŭ, who worked as a policeman in the past, looks happy when saying that he managed to attract youth to this civil activity. They enjoy learning how to behave in various situations, and moreover, they receive some payment for that, the activist said.

[The first congress of Belarusians of Karelia.](#) Around 100 delegates from 15 municipalities, representatives of the State Duma and regional authorities took part in the first congress of Karelian Belarusians, *Soyuz* newspaper reports. Belarusians are the third largest nationality in Karelia, the northern region of Russia on the border with Finland, with 23,000

inhabitants of Belarusian origin there. They started to migrate there in 1930s-1940s, when the Soviet government decided to populate the former Finnish territories. Along with voluntary migrants, however, the Stalin regime exiled rich peasants or 'kulaki' to these lands. Now Karelian Belarusians plan to unite into one regional association.

The State Digest Digest is based on review of state-controlled publications in Belarus. Freedom of the press in Belarus remains restricted and state media convey primarily the point of view of the Belarusian authorities. This review attempts to give the English-speaking audience a better understanding of how Belarusian state media shape public opinion in the country.