

# **The Costs of the Economic Downturn – Digest of Belarus Economy**

On 6 May 2016 the Chairman of the Board of the National Bank of Belarus (NBB) Pavel Kallaur disclosed the long-suspected information about problems in the banking system.

Two weeks later, the Prime Minister Andrei Kobyakov has called for market-based instruments in order to cure sinking state-owned enterprises (SOEs).

And on 22 May 2016 the Minister of Finance Vladimir Amarin has announced budget cuts appealing Belarusians to live within one's means. The Belarusian population is paying for mistakes made by the government focused on preserving inefficient state enterprises.

## **Toxic Assets: Boggling Down in Debts**

On 6 May 2016 the Chairman of the Board of the NBB Pavel Kallaur has said that projected dynamics of troubled assets indicate a possible rise of bad debts for banking system in Belarus, but he assured that the situation stays manageable.

Meanwhile, the share of toxic assets in the Belarusian banks increased in March by 4.3 per cent consuming the 11.5 per cent of their total assets. As a result, its current level became the new high for the banking system of Belarus. The previous record lasted only three month, when on 1 January 2016 the share of toxic assets of the Belarusian banks reached 6.8 per cent.

All these happened due to [high level of debt load of borrowers](#) and the continuing devaluation of Belarusian ruble that negatively influenced the ability of Belarusian enterprises to fulfill credit obligations to banks in time. For example, for the first three months of 2016 the share of loss-makers in manufacturing reached 34.2 per cent.

the rating agency Fitch Ratings the share of troubled assets will grow gradually even if in the second half of year the economy will begin to recover

Further, according to the rating agency Fitch Ratings the share of troubled assets will grow gradually even if in the second half of year the economy will begin to recover. However, 3 per cent GDP drop in the first four months of 2016 seriously questioned such a scenario.

Thus, the agency warned that in order to control the situation the special organisation aimed on operations with such assets should be established.

## **Market Reforms: Craving for Growth**

According to the IMF forecast the Belarus's GDP will fall again this year by 2.7 per cent adding additional pain to economic misery of 2015, when GDP fell below the 2010 and 2008 levels reaching \$54.8bn in terms of average annual exchange rate of the NBB.

A small growth can start after 2018 and only due to the so-called "low base effect", when the fall reaches the bottom and starts at least some minimal growth.

Meantime, taking above forecasts into account the Prime Minister Andrei Kobyakov on 18 May 2016 has proclaimed that

Belarus urgently needs to speed up the involvement of the market-based instruments in next three directions – exports, employment and investment – to stimulate economic growth.

For export promotion Belarus's government expects to diversify sales equally in three destinations (Eurasian Economic Union, European Union, other countries) by 2020 in order to escape from overwhelming dependence on the economic situation in specific countries (first off all Russia).

As a result of [substantial reliance on eastern neighbour](#) trade balance considerably deteriorated (see Figure). Particularly, it damaged sales in the famous Belarusian export "Trucks" category – since 2013 the annual exports decreased by 64 per cent reaching only 3.9 thousand items in 2015.



Concerning labour market the government determined the employment target of 50 thousand new jobs as a priority for local authorities in Belarus. Finally, the investment program for 2016-2020 supposes attraction of foreign investments in the amount of \$30bn for the metallurgy, engineering, electronics, optics and ICT in the first place.

# Public expenditures: Cutting the "Edges"

On 22 May 2016 the Minister of Finance of Belarus Vladimir Amarin has announced the reduction of budget expenditures by BYR15trn or about 7 per cent. The optimisation originally concerned non-priority items only (subsidies to local budgets and [reduction of financial support to SOEs](#)) without spending cuts for social sector (salaries, social benefits and medicines).

The Minister claimed for effective use of budget resources in order to achieve greater results. However, experts doubted about such an emergency decision. According to Belarusian economist Sergei Chaly planned budget cuts represents actually a huge amount – any adjustments higher than 5 per cent may have a very depressive effect on the economy.

Later, on 27 May 2016 the Deputy Minister of Finance of Belarus Maxim Ermolovich has questioned the issue of reduction of public expenditures even further saying that the issue of social cuts still stay under pressure. According to him solution of this problem depends on the possibility to reduce capital expenditures, which are also of high priority for the government.

As a result, the pessimistic forecasts made by economists of the IPM Research Center (about 2.2 percent poverty increase in Belarus measured as the share of the population living below the absolute poverty line) may become a reality even faster and hit more than 7.2 per cent of Belarusians.

According to their opinion children and adults that due to any circumstances have the worst labour market prospects remain the most vulnerable population groups of Belarusians to risk of poverty.

Thus, it seems that the Belarus's economy still pays its bills for wrong economic policy decisions made in previous years. Overindebted state-owned "giants" and dragging down banking system leave no choice for government but to cut budget expenditures. Further, as it always happened the main costs for economic mistakes seem to incur by simple Belarusians.

*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)*