

The impact of Common Economic Space on the economy of Russia, Kazakhstan and Belarus: results and prospects

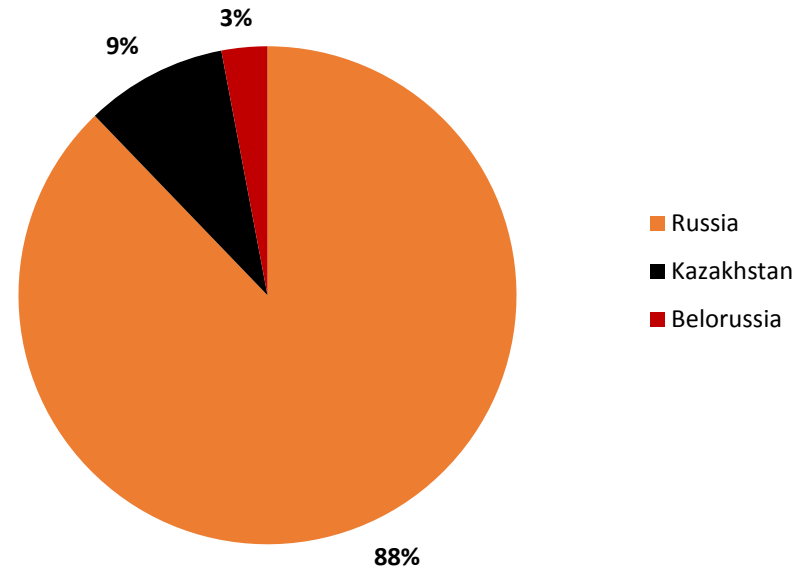
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The unequal union:

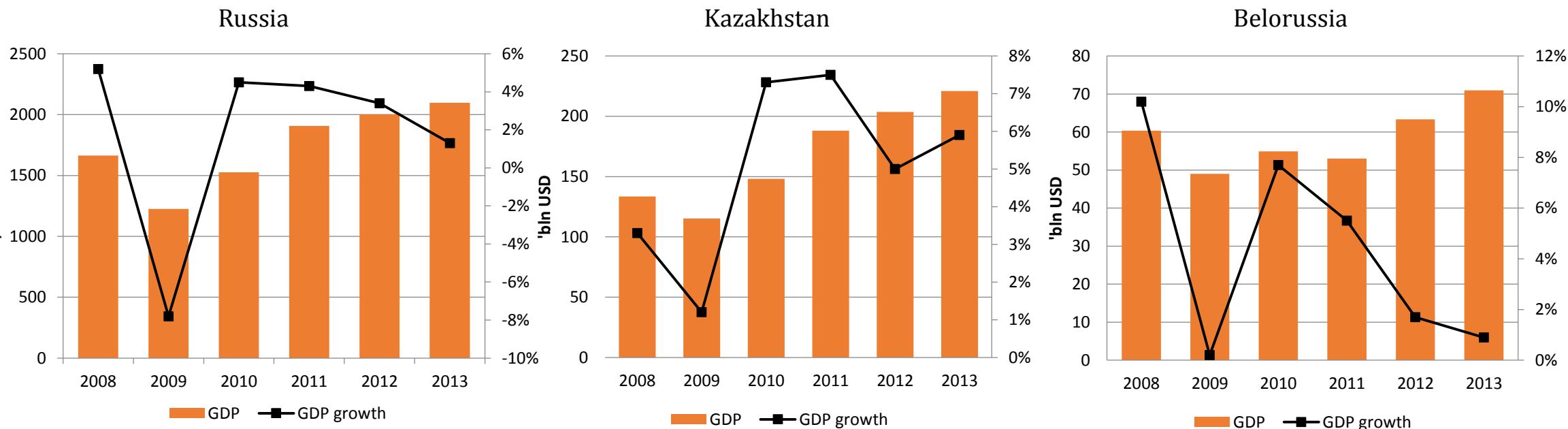
Russia accounts for 88% of the total GDP of 'Common Economic Space'

Share in the total GDP of 'Common Economic Space' in 2013



Source: 'RAEX' according to Federal State Statistics Service, National Statistical Committee of the Republic of Belarus, Agency of Kazakhstan of Statistics

Slowdown of the Russian economy is a challenge for other members of CES

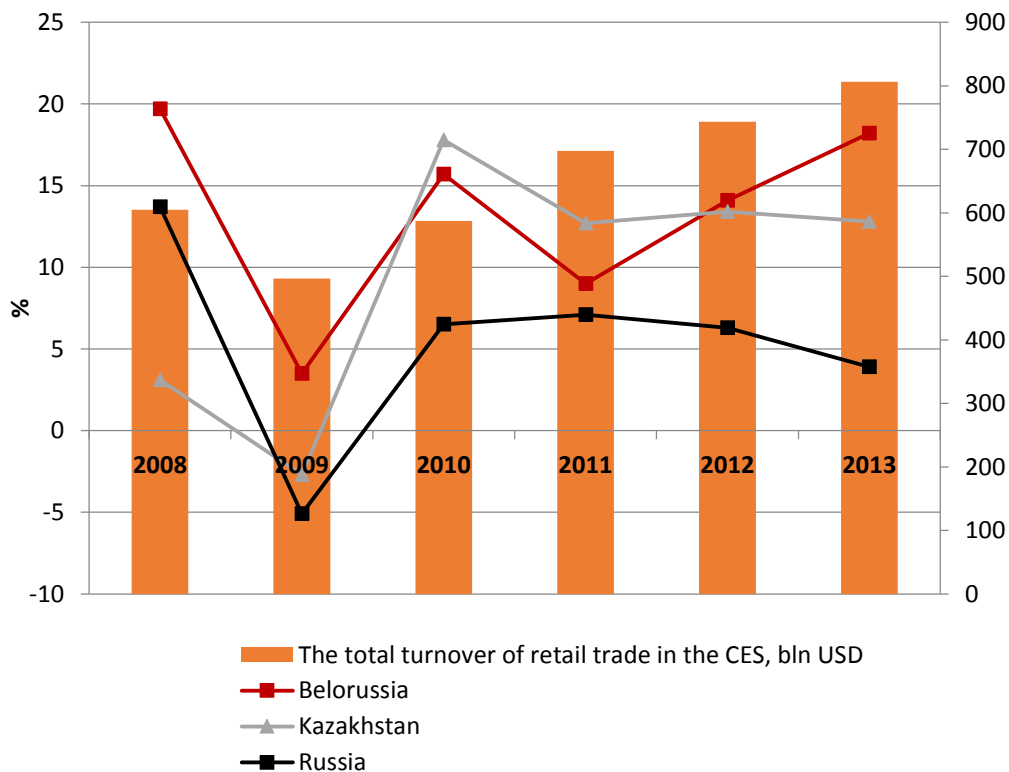


Source: 'RAEX' according to Federal State Statistics Service, National Statistical Committee of the Republic of Belarus, Agency of Kazakhstan of Statistics

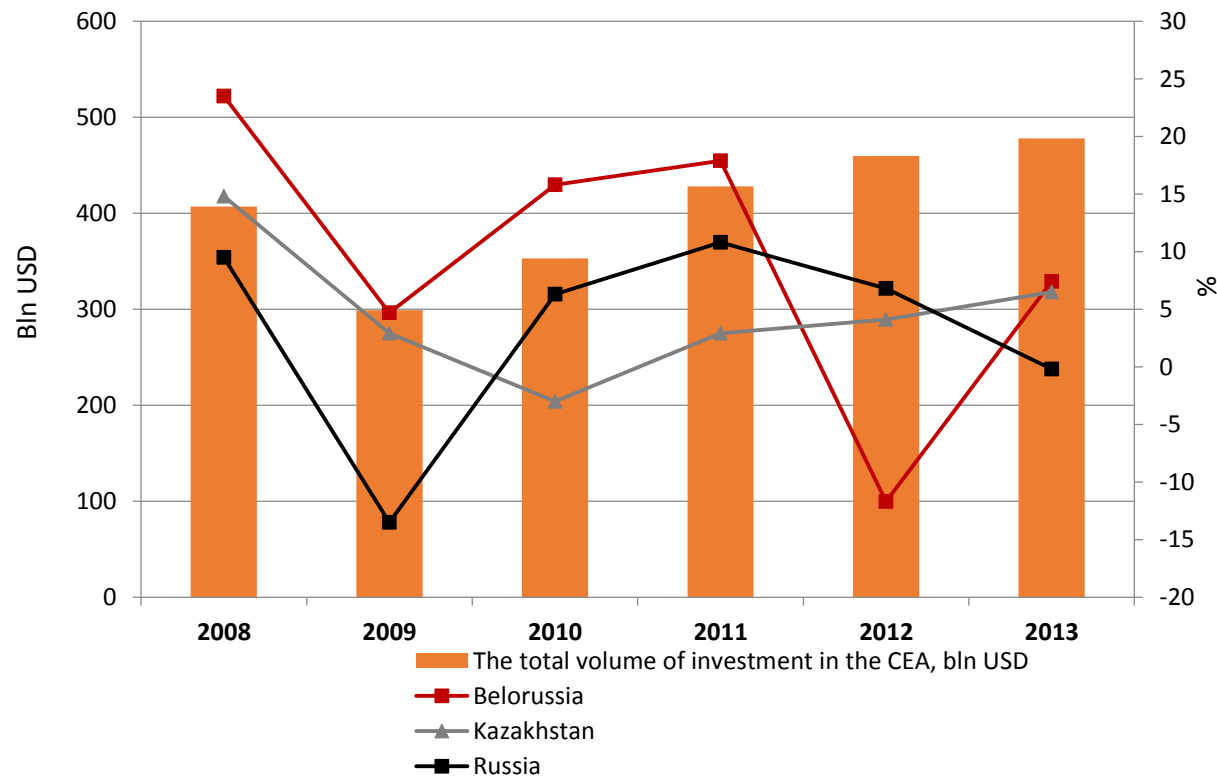
- The slowdown in Russian economic growth has been there for three years
- Belorussian economy reacts strongly on the slowdown in Russian economy
- Kazakhstan has growth based on final consumption, with significant domestic economic problems

Consumer demand is gradually ceasing to be the driver of growth

Dynamics of retail turnover in the CES



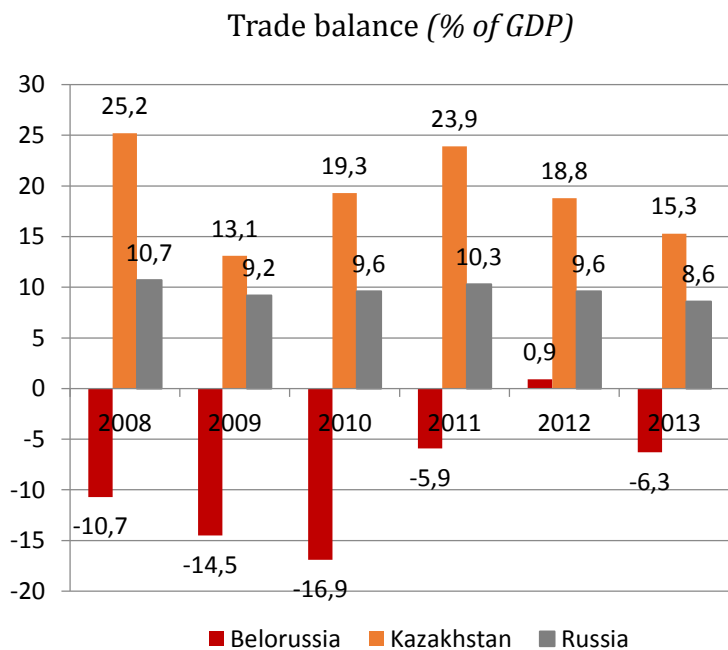
Dynamics of investments in the CES



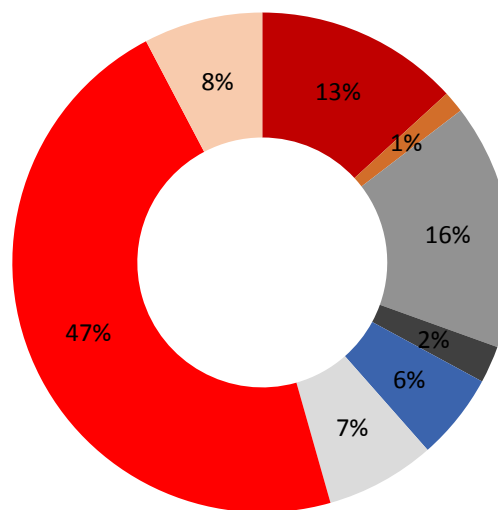
Source: 'RAEX' according to Eurasian Economic Commission

- Reasons for the slowdown of investment - not only in financial sector, but also institutional in the economy as a whole
- All countries of CES implement reforms aimed at improving the investment climate

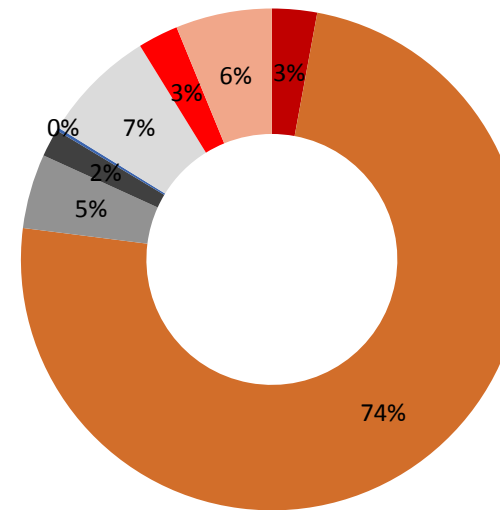
Consequences of high commodity dependence: reducing trade surplus of Russia and Kazakhstan



Structure of import to CES in foreign trade with third countries



Structure of export from CES in foreign trade with third countries



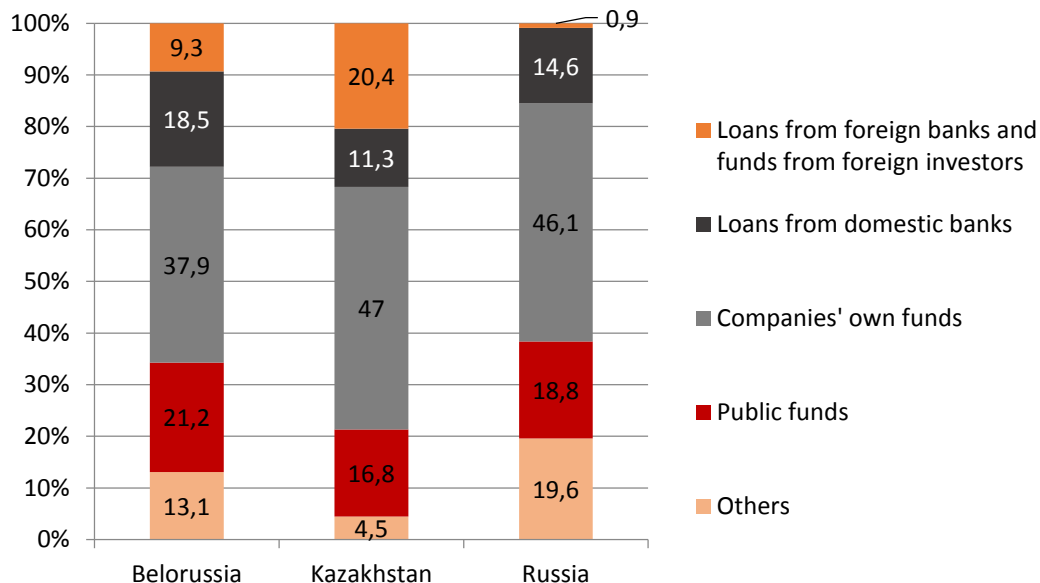
- Food commodities and raw agricultural products
- Products of mining industry
- Chemical products
- Wood, pulp and paper
- Textiles and footwear
- Metals
- Machinery, equipment and vehicles
- Others

Source: 'RAEX' according to Eurasian Economic Commission

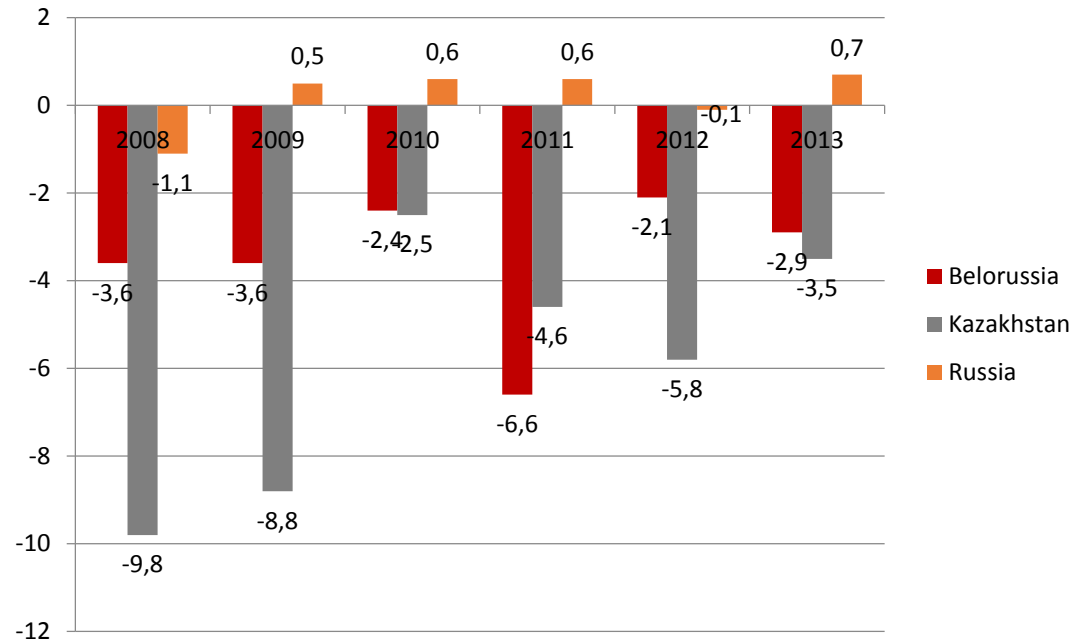
- External demand within the CES also gradually reduced
- Structure of export / import of CES shows low competitiveness of CES economies
- The main problem of Belorussia's foreign trade - currency liquidity shortage

Lack of long-term funding sources is the main obstacle for economic growth in the CES

Structure of capital investments by source of funding, %



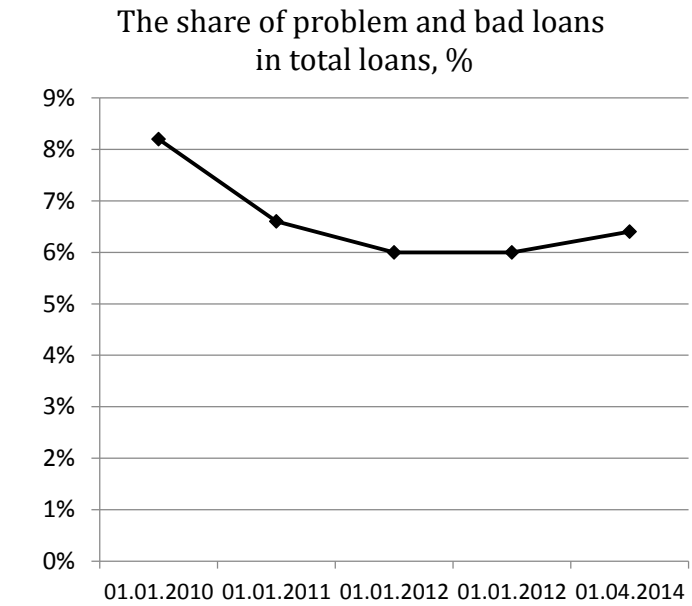
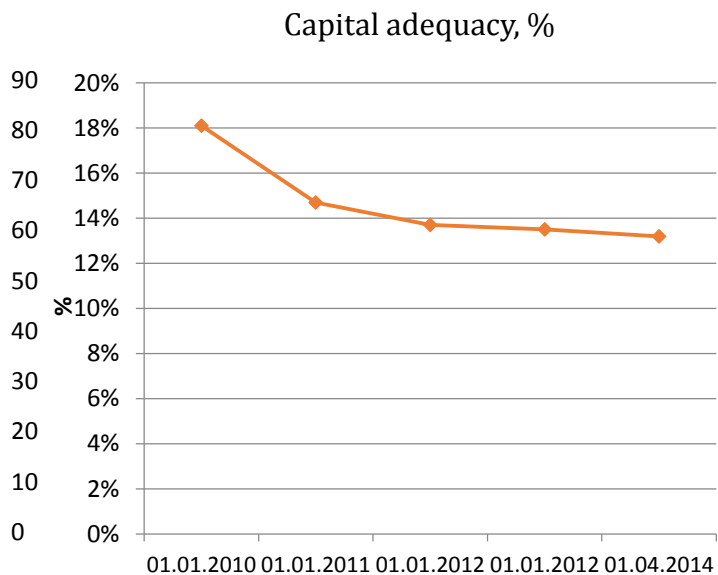
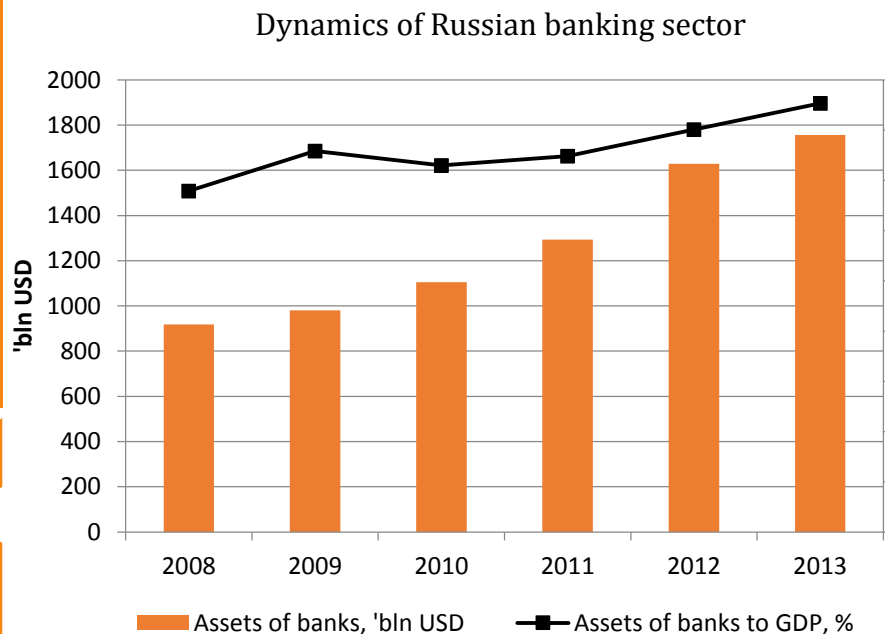
Balance of direct investment (% of GDP)



Source: 'RAEX' according to Eurasian Economic Commission

- Balance of direct investment is negative or close to zero
- High share of enterprises' own funds in financing investment projects

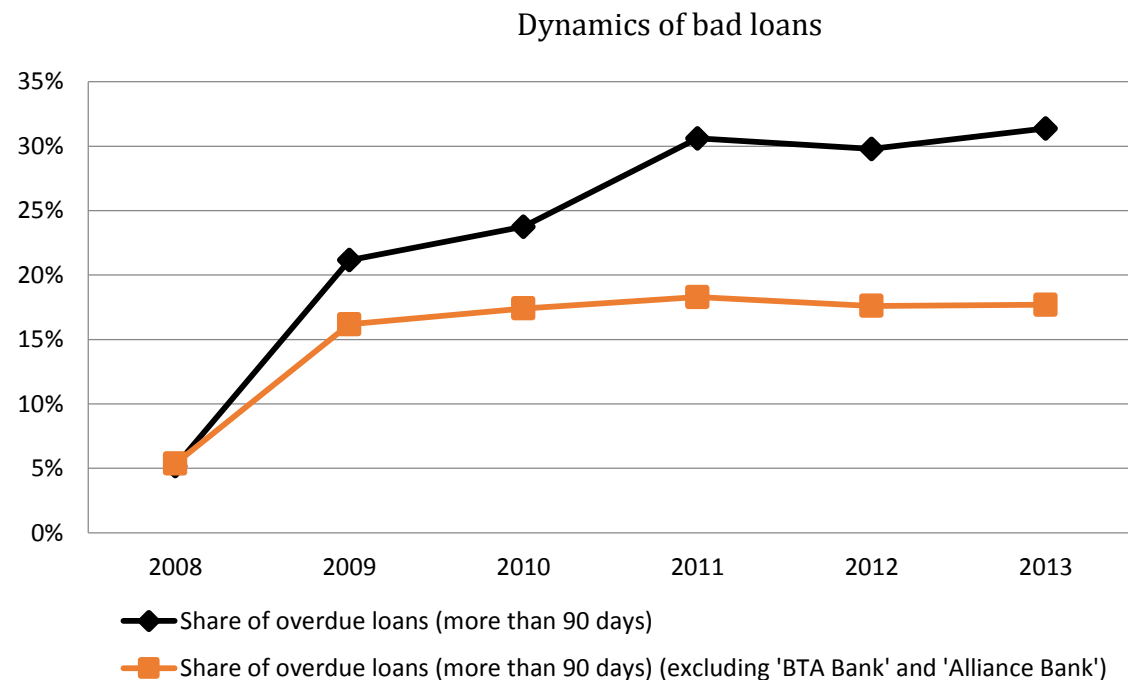
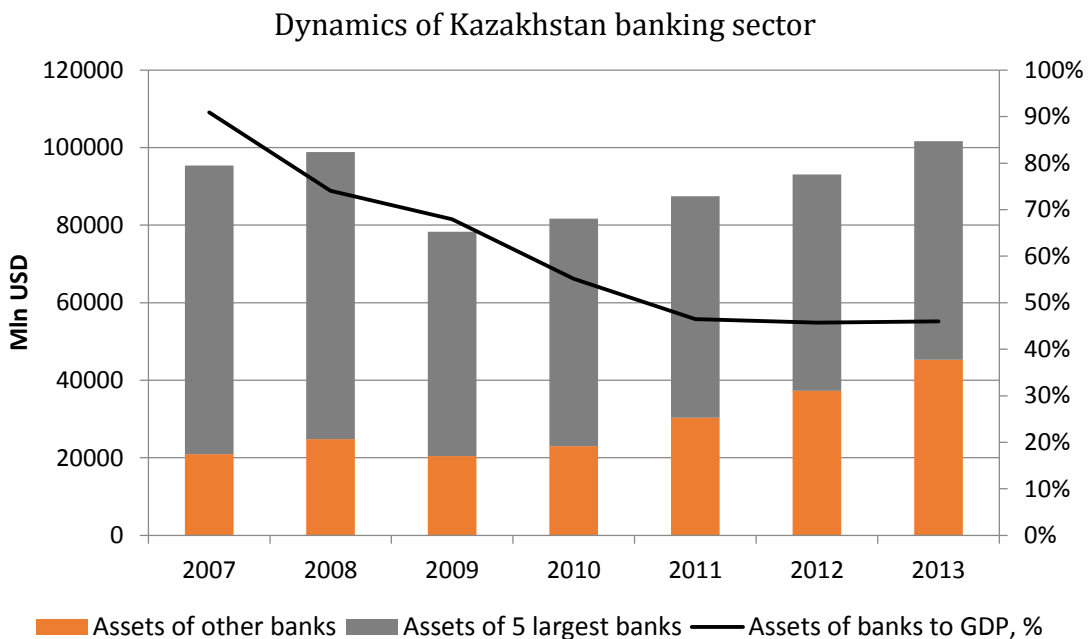
The asset quality of **Russian** banks will deteriorate as a result of slowdown of economic growth



Source: 'RAEX' according to Central Bank of Russian Federation

- Relatively high level of development of the banking system: assets of Russian banks to GDP – 85% (growth from 2008 – 15 pp)
- High capital adequacy (>12%) and high profitability level of banks;
- Moderately high level of overdue loans (3,5% ac. to CBR)
- The growth of the level of overdue loans (mostly in sector of unsecured consumer credits)

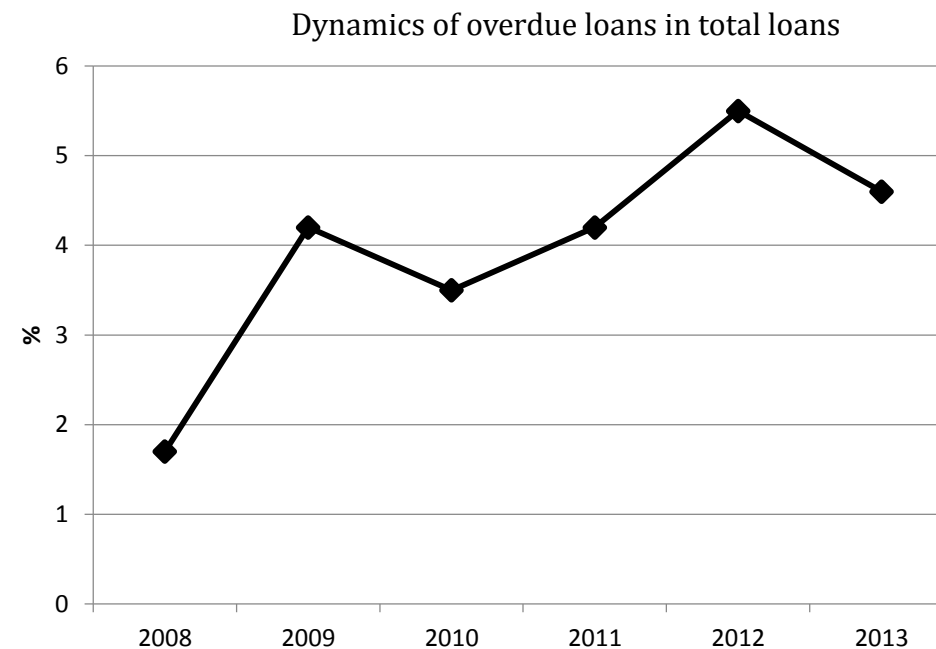
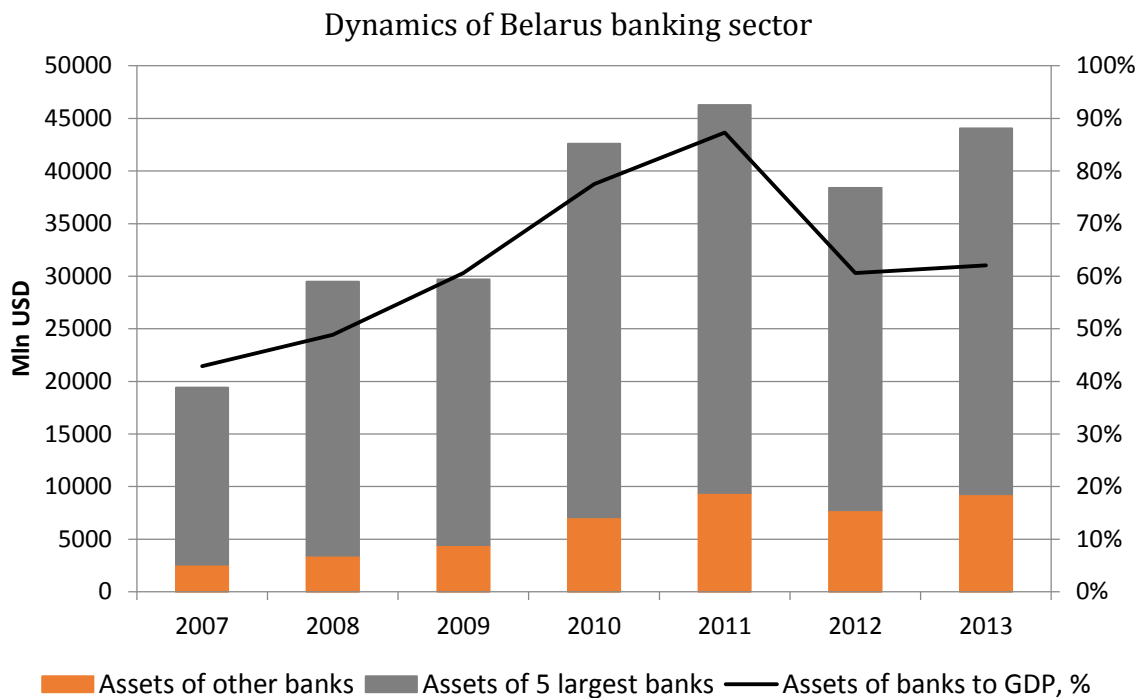
The main risk of the **Kazakhstan** banking system: high level of overdue debt



Source: 'RAEX' according to National Bank of Kazakhstan Republic

- The crisis has led to a reduction in the role of the banking sector in the economy
- Currency devaluation and aggressive credit expansion of banks led to moderately high level of overdue loans
- The National Bank has introduced limits on consumer lending in February 2014
- Positive features: moderately high level of capital adequacy (>13%) and high profitability level of banks (ROA = 1.77%)

Four largest state-owned banks account for 65.7% of total assets of the banking system of **Belorussia**

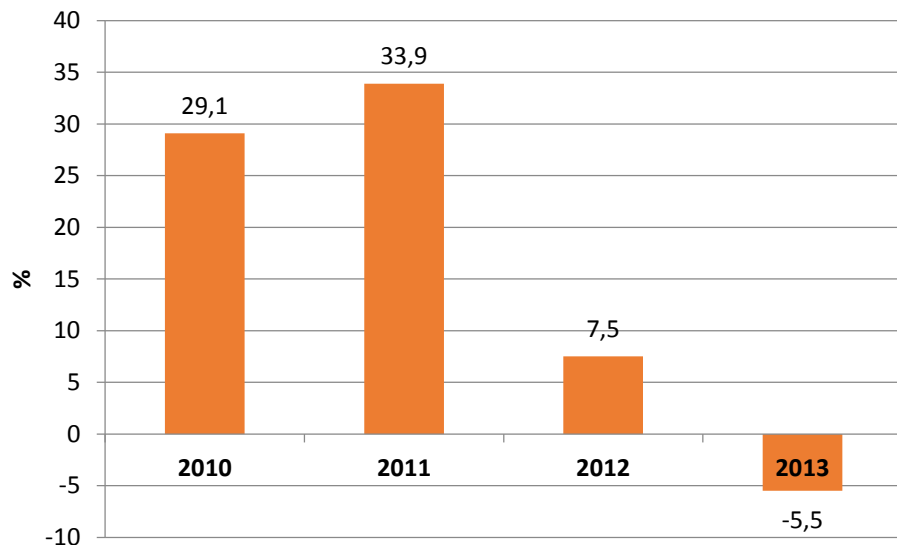


Source: 'RAEX' according to National Bank of Belarus Republic

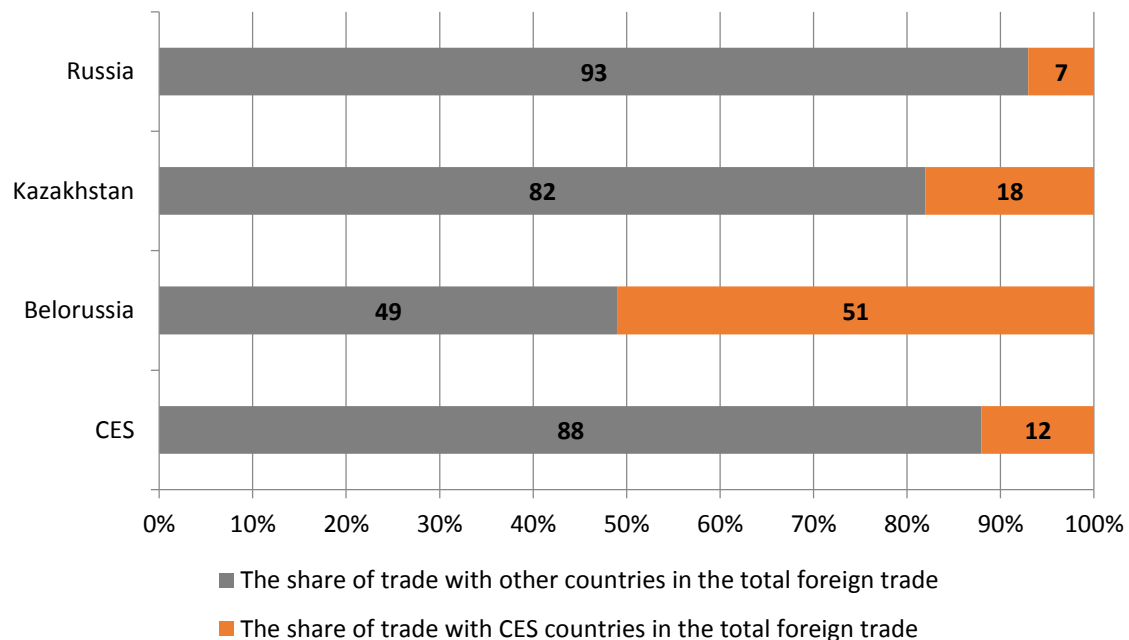
- Relatively low level of development of the banking system and high level of concentration
- Acceptable level of stability of the banking system: normal capital adequacy (>14%), high profitability level of banks, acceptable share of overdue loans

The effect of removing customs barriers exhausted by 2013

Growth of mutual trade in goods between the CES countries



Share of mutual trade in foreign trade EEA is small, but highly significant for Belarus



Source: 'RAEX' according to Eurasian Economic Commission

- Harmonization of customs and technical regulation has led to a sharp increase in mutual trade in the period of economy recovery
- Low share of mutual trade in the total foreign trade of CES
- CES does not provide to its participants rapid growth of trade with Russia. The share of Belorussia and Kazakhstan in Russia's foreign trade has been steadily declining. Russia's trade with countries outside the Union, develops more active

Areas of potential increase of the CES effect:

- Abolition of import/export duty on oil
- Liberalization of mutual investment regulation
- Increasing integration of financial markets
- Closing the gap in the foreign trade barriers
- Increasing bargaining power with third countries



Thank you for your attention!

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