

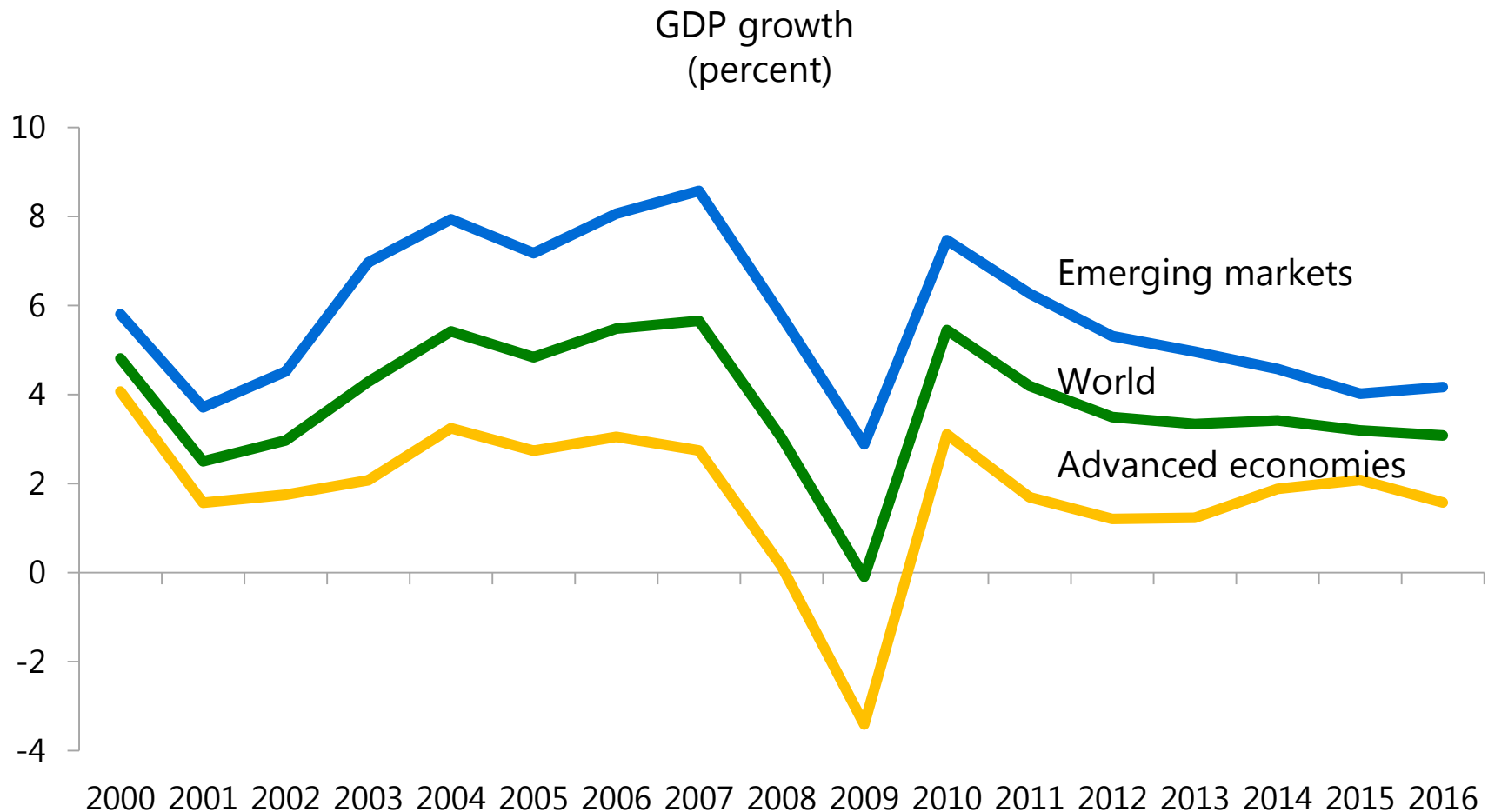
Main Risks for Belarussian Economy and Prospects for Belarus-IMF cooperation



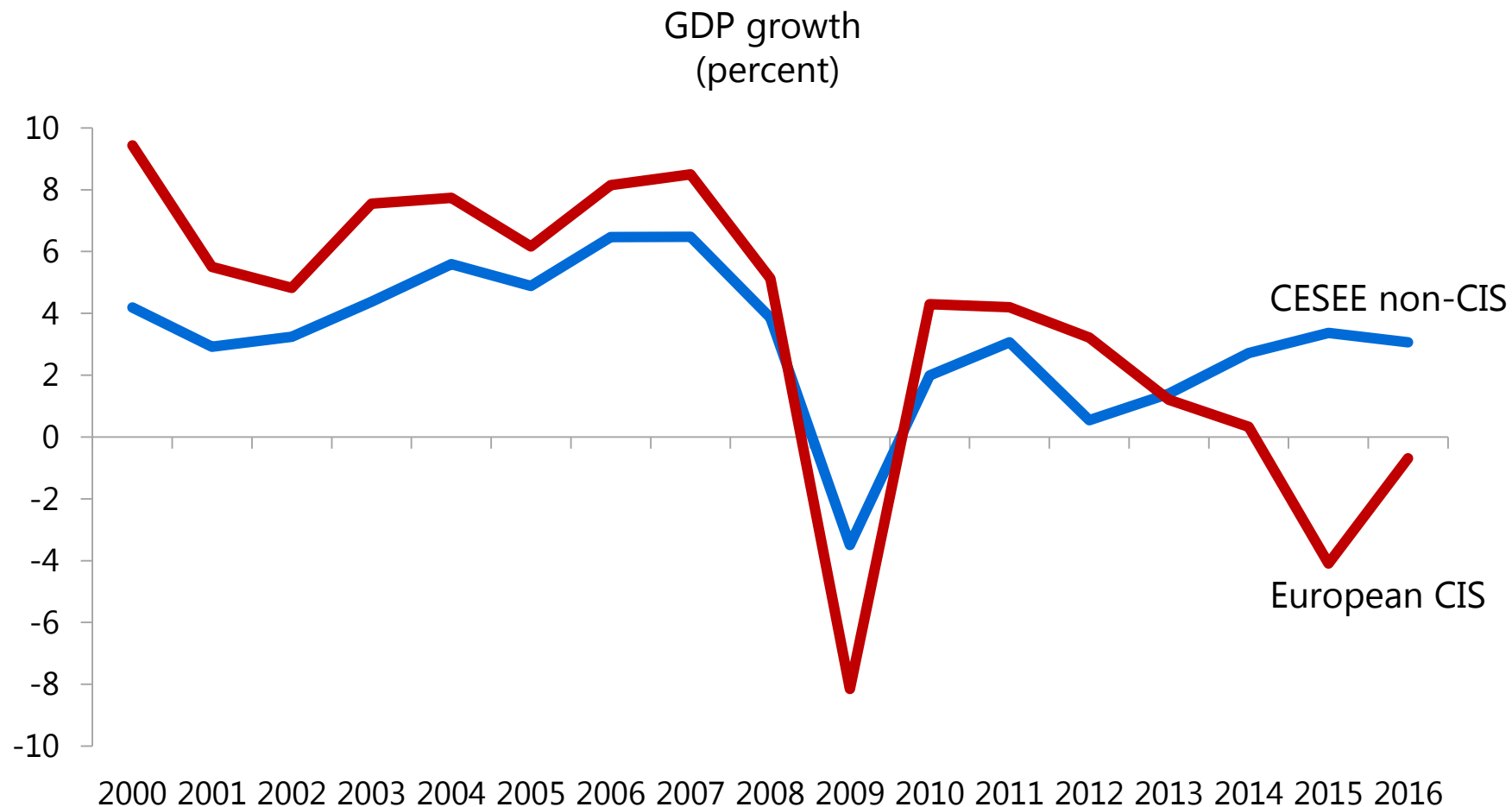
Workshop "Economic Environment for Businesses"
Minsk, December 14, 2016

Bas B. Bakker
Senior Regional Resident Representative
for Central and Eastern Europe

Global growth has hovered around 3¼ percent in recent years, well below pre-crisis levels.



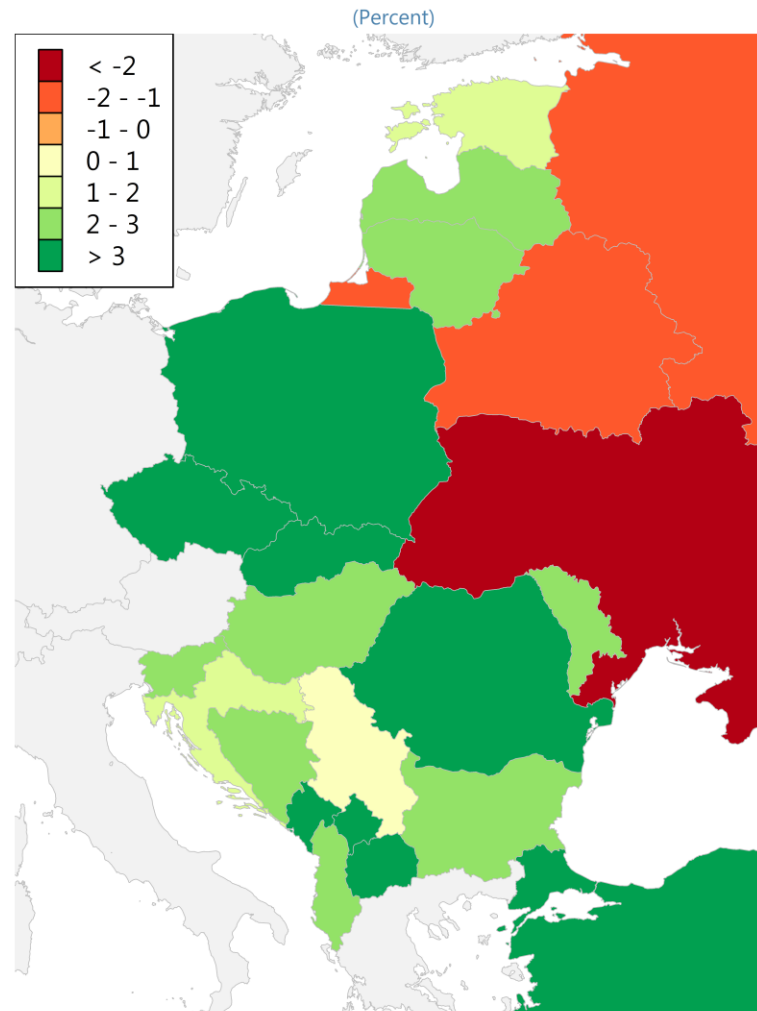
In CESEE, non-CIS is doing better than CIS



Indeed, significant differences in growth between CIS and non-CIS CESEE



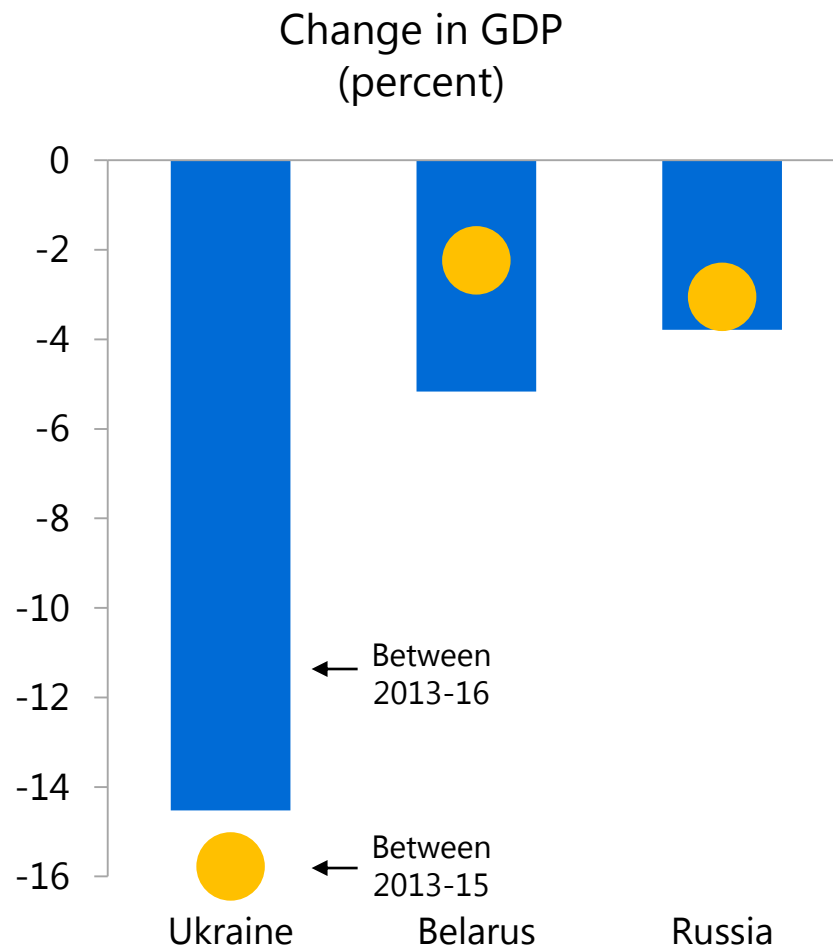
Average annual GDP growth, 2013-16



Along with Russia, the rest of CIS also suffered from recession in 2014/15



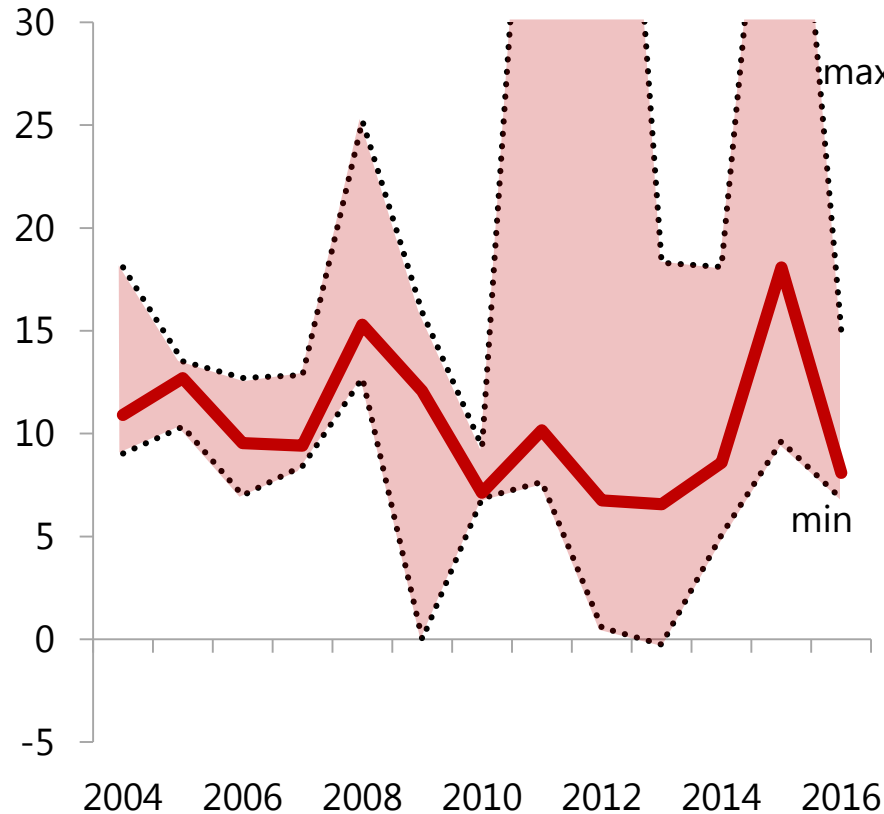
- Spillovers from Russia
- Collapse of commodity prices
- Sudden stop in capital flows to Russia, result of sanctions on Russia
- Conflict in Ukraine



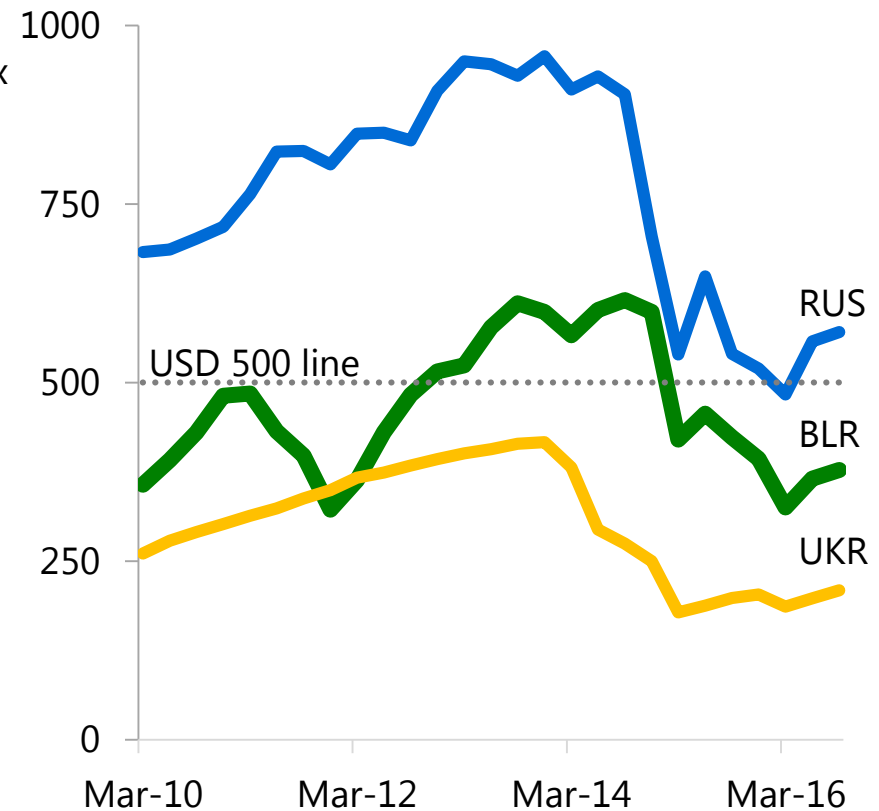
Exchange rate depreciation increased inflation and reduced real wages



CPI Inflation in European CIS
(percent, weighted average)



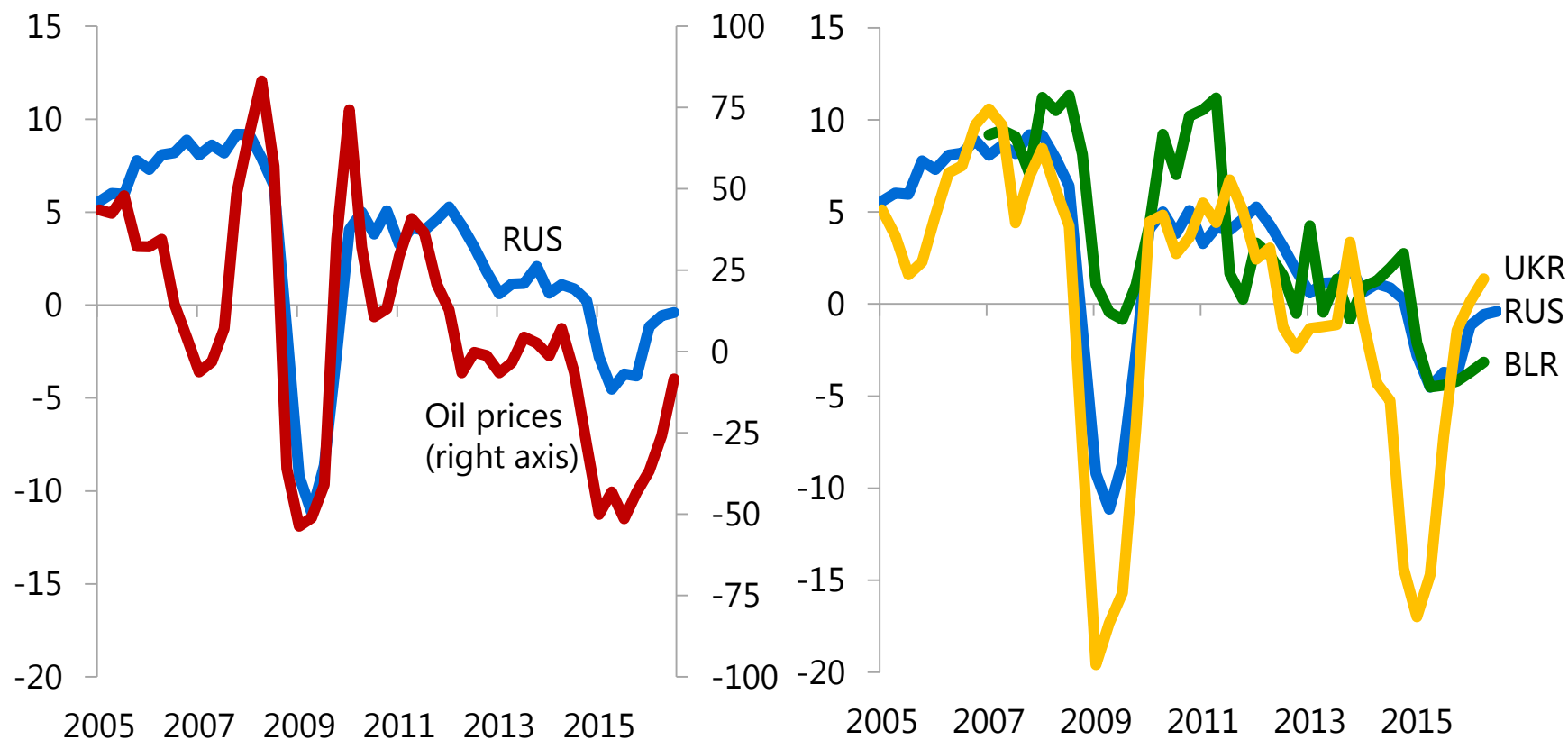
Average monthly wages
(USD)



2016: Russia is recovering, helped by rising oil prices.



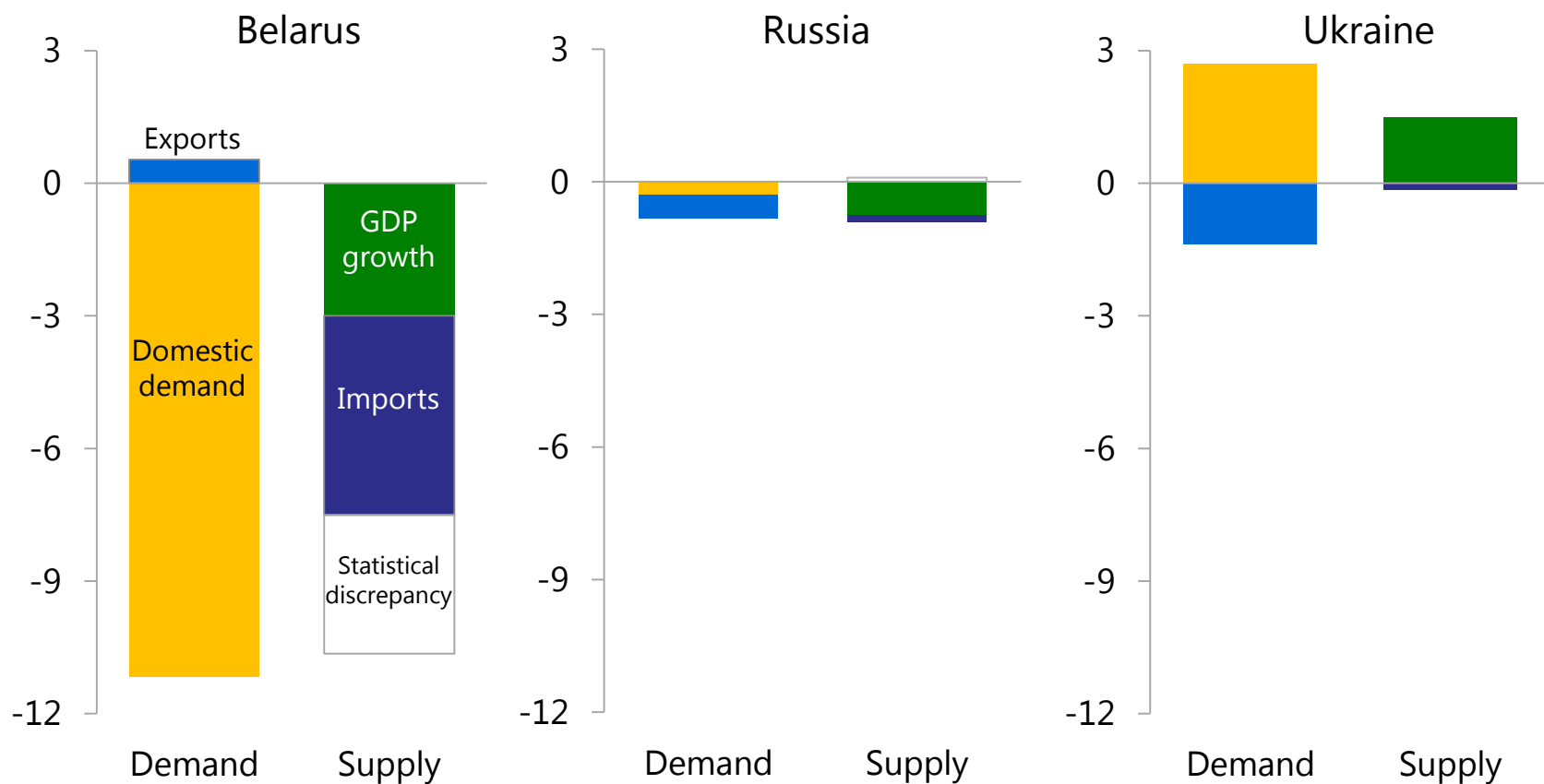
Real GDP growth in Russia, other CIS countries and changes in oil prices
(percent y/y)



Belarus still in recession



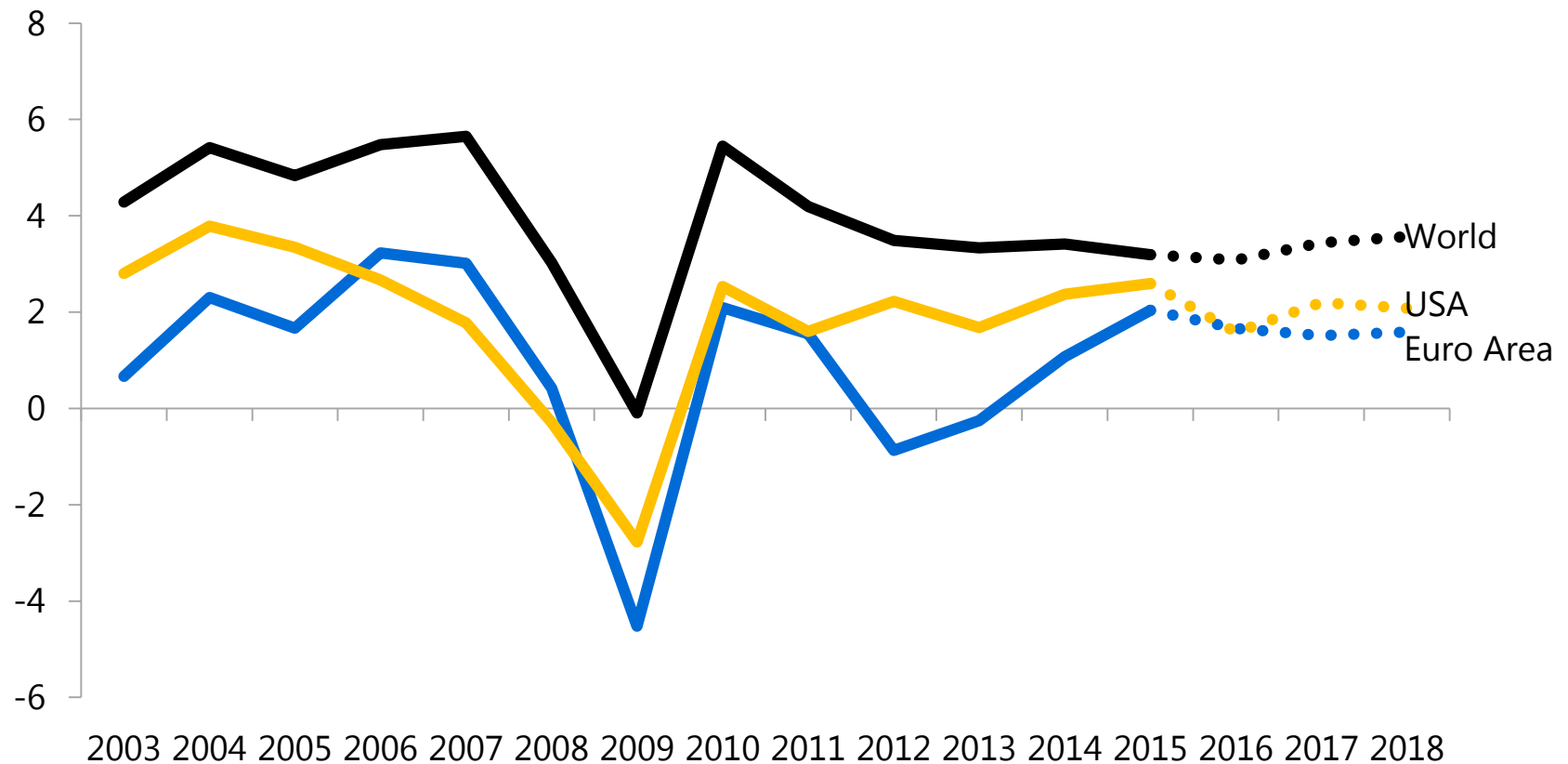
Demand and supply components: contribution to GDP in 2016
(percent)



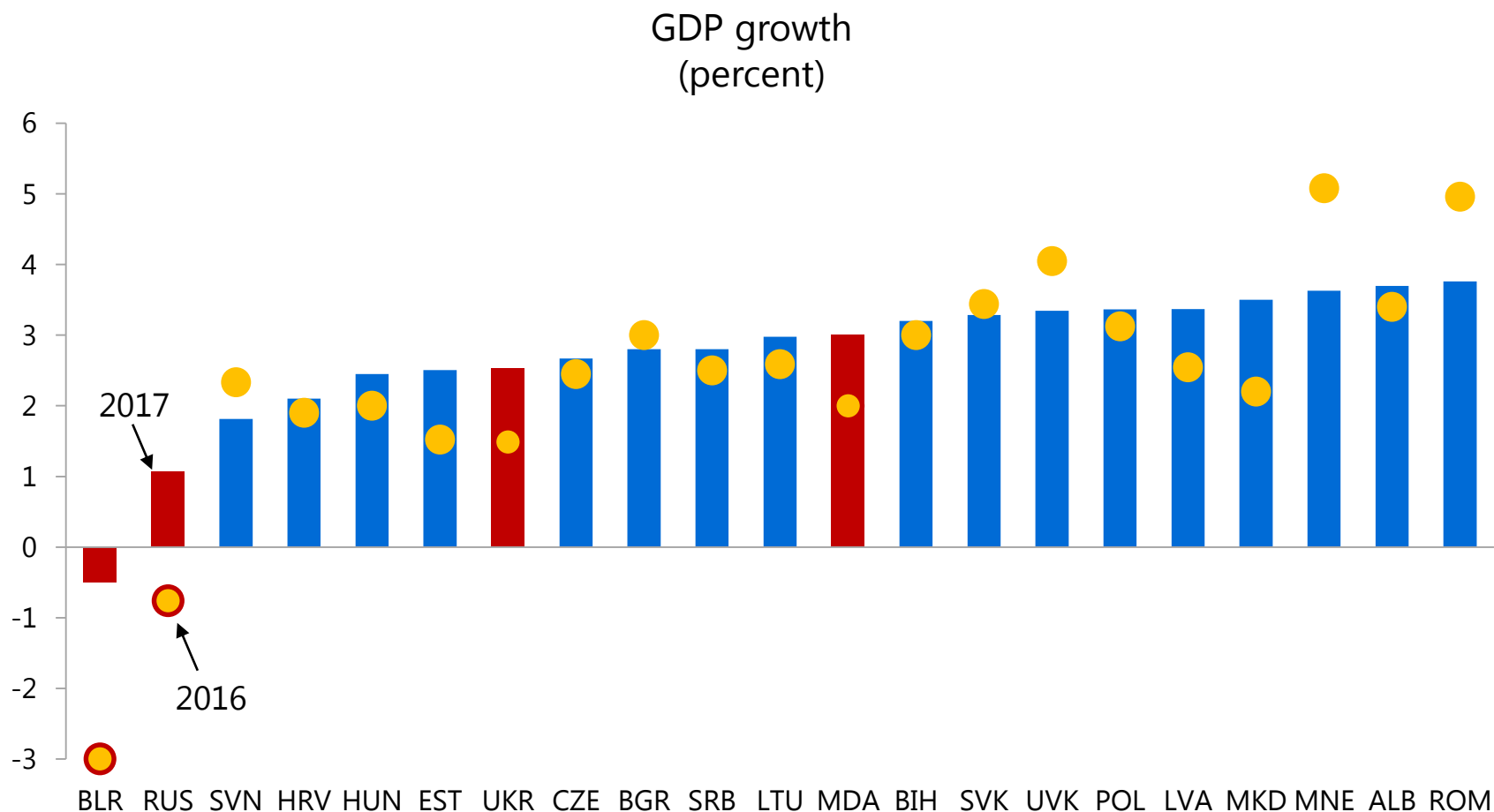
Forecasts for 2017: global growth continues to be modest



GDP growth according to WEO Oct-16
(percent)



Forecast for 2017: Non-CIS similar as 2016; pick-up in CIS; Belarus still in recession

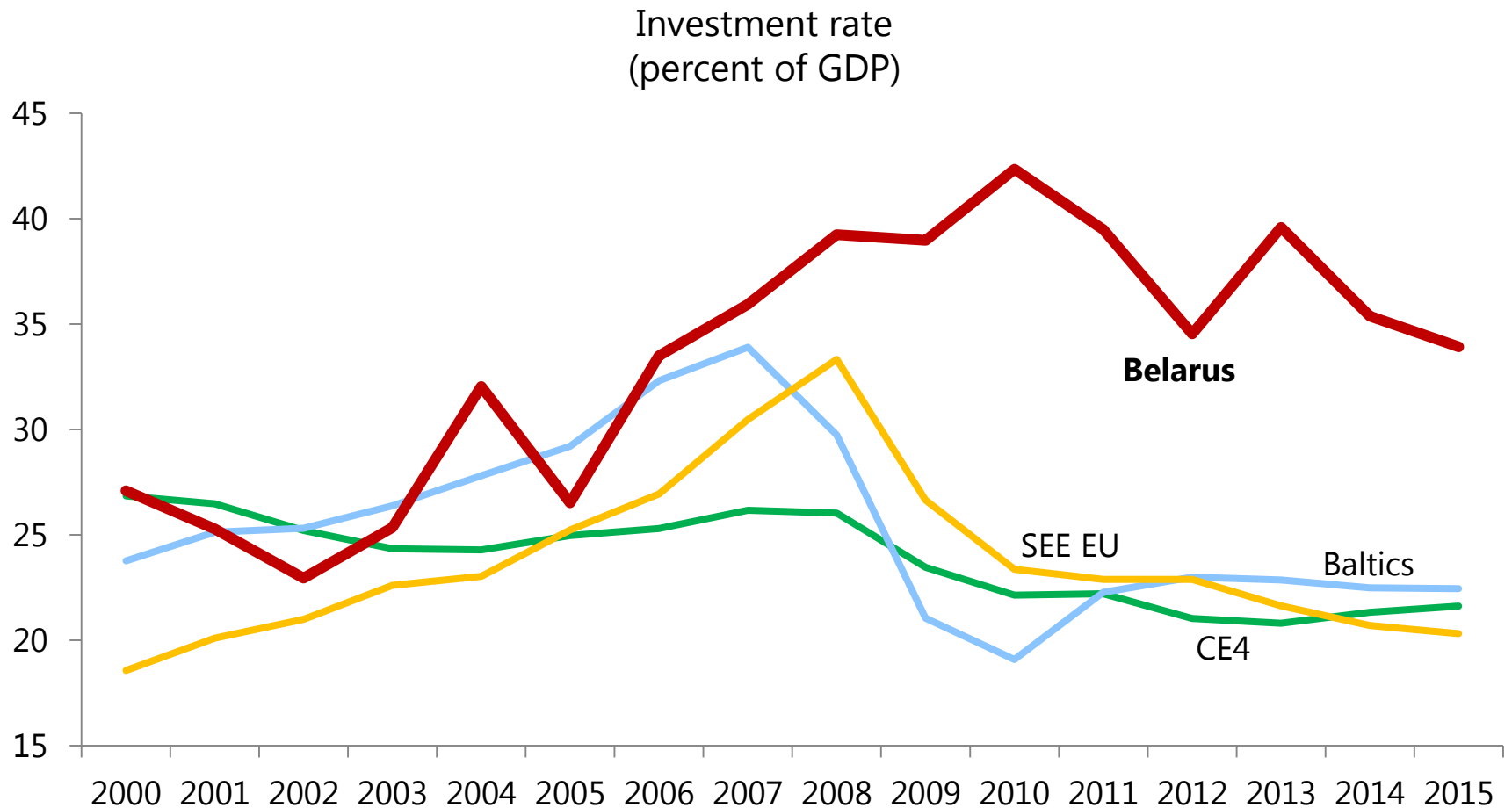


Note: CIS countries in red.



Toward a sustainable growth model

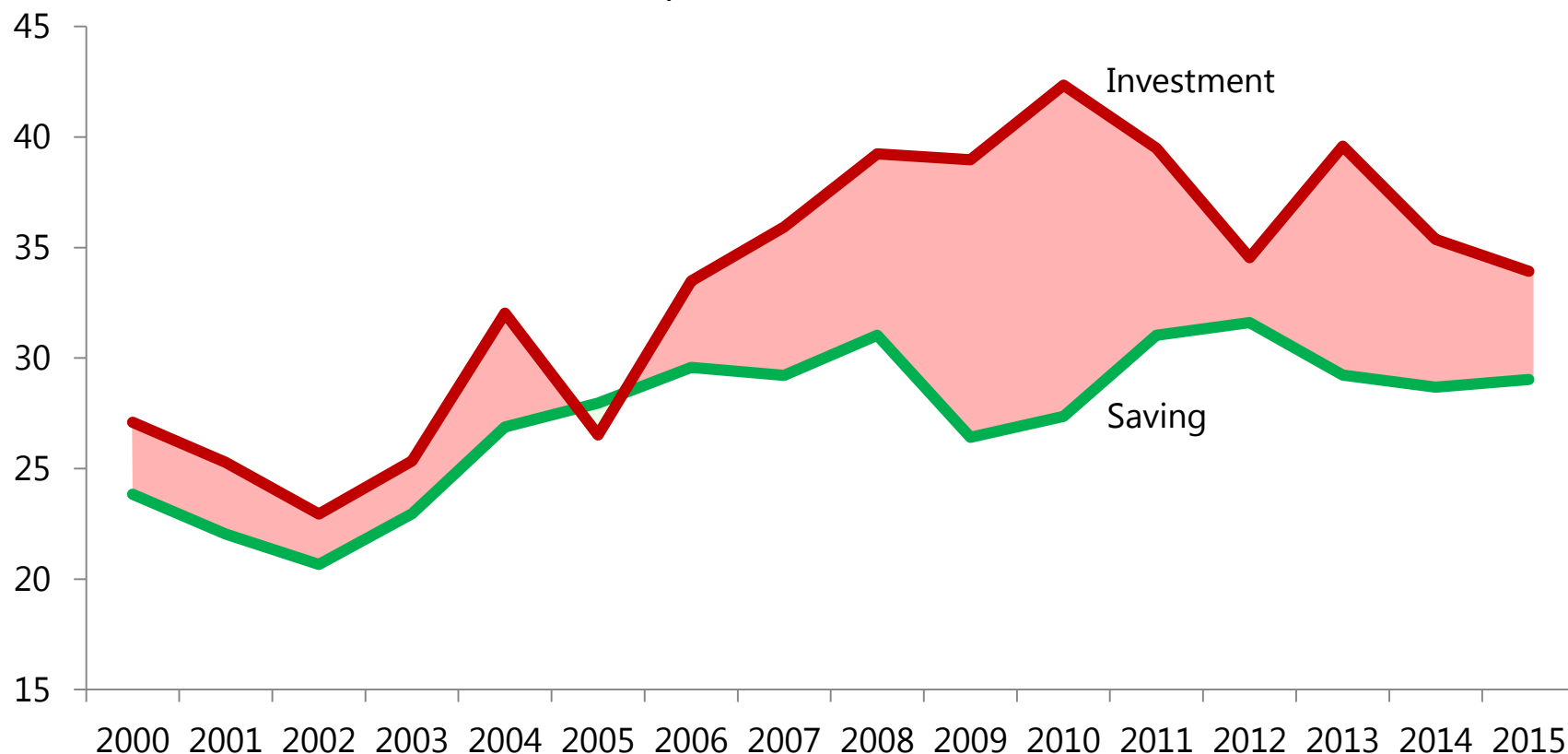
Investment to GDP ratio increased sharply in the 2000s



Domestic saving did not follow and external imbalances reached unsustainable levels



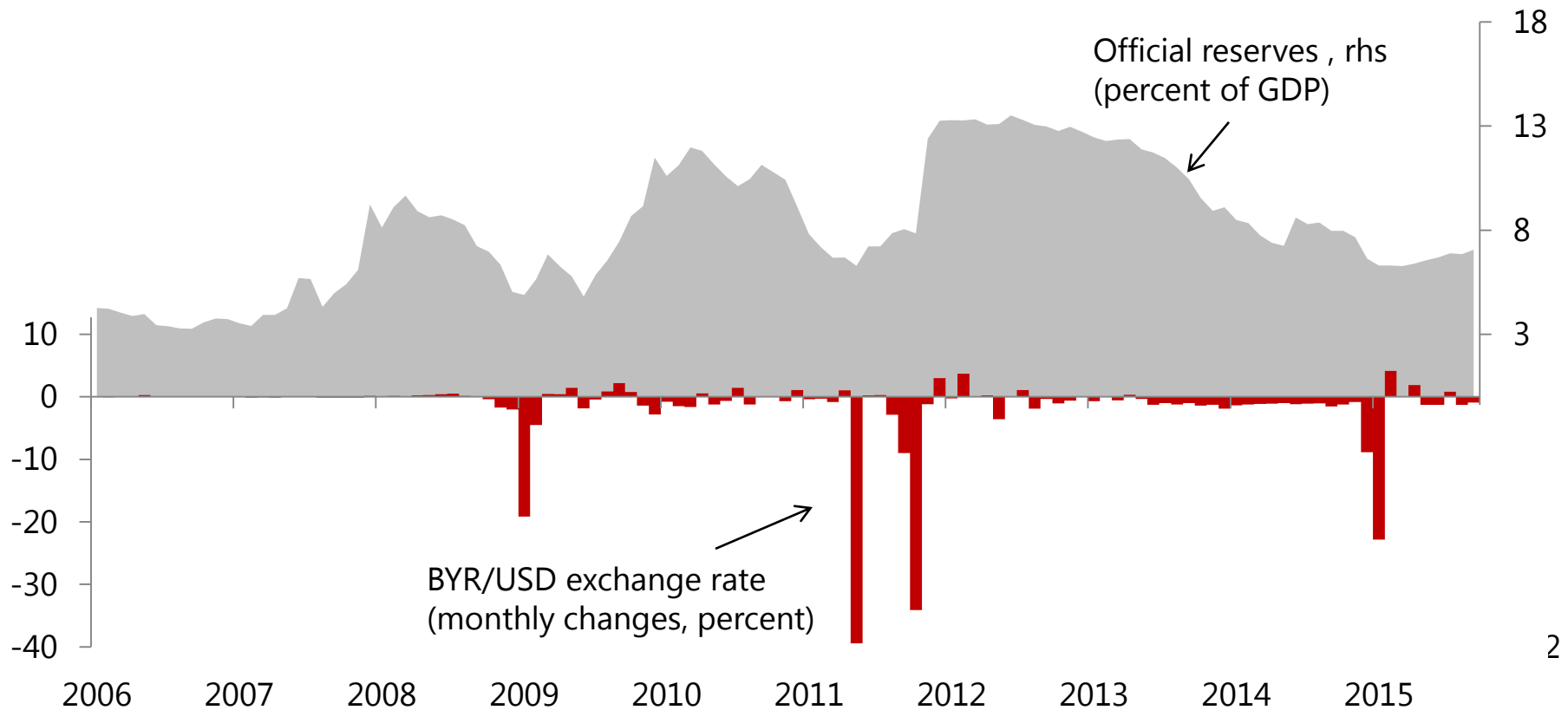
Investment and saving rates in Belarus
(percent of GDP)



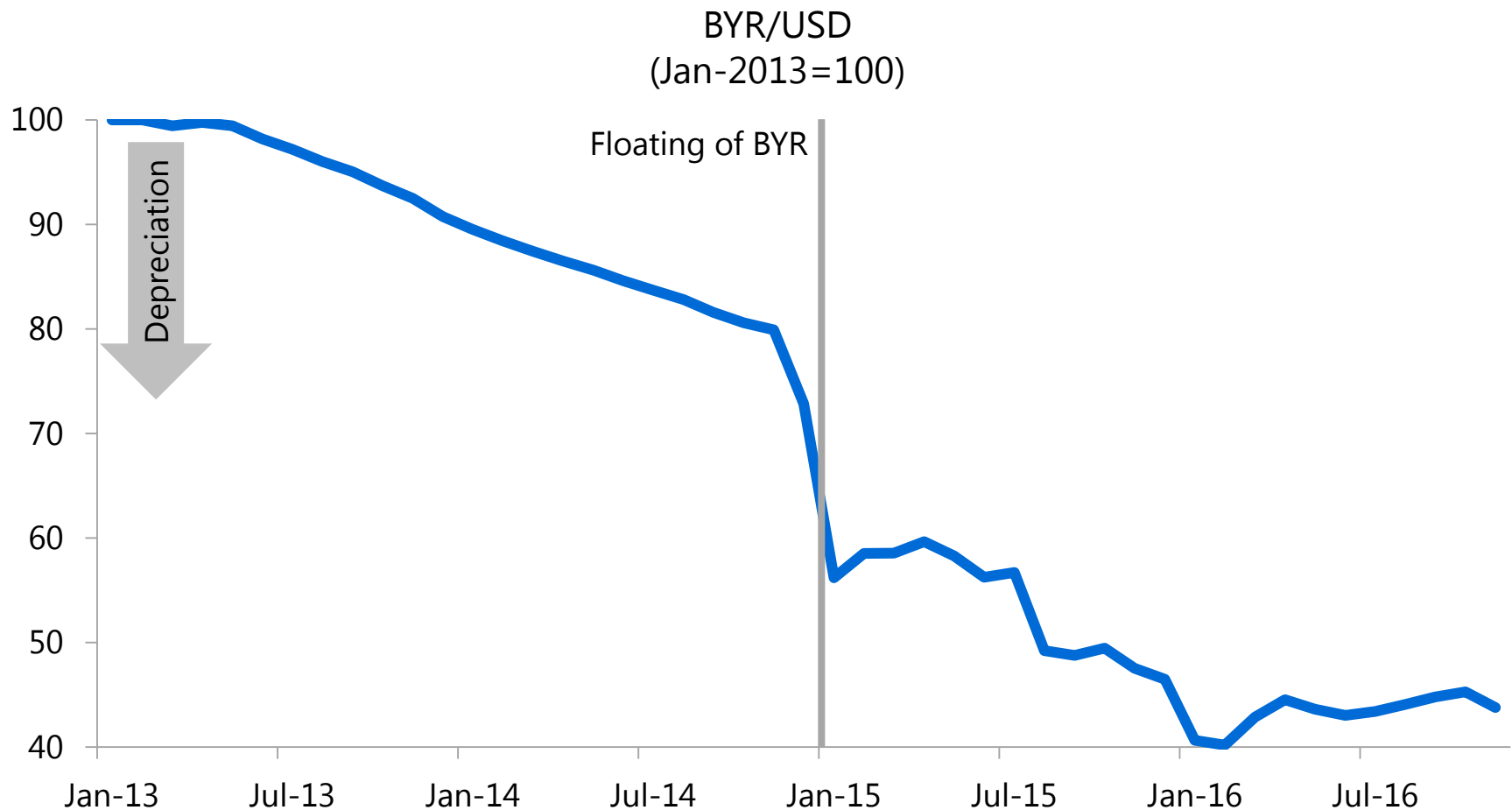
The result was several BOP crises



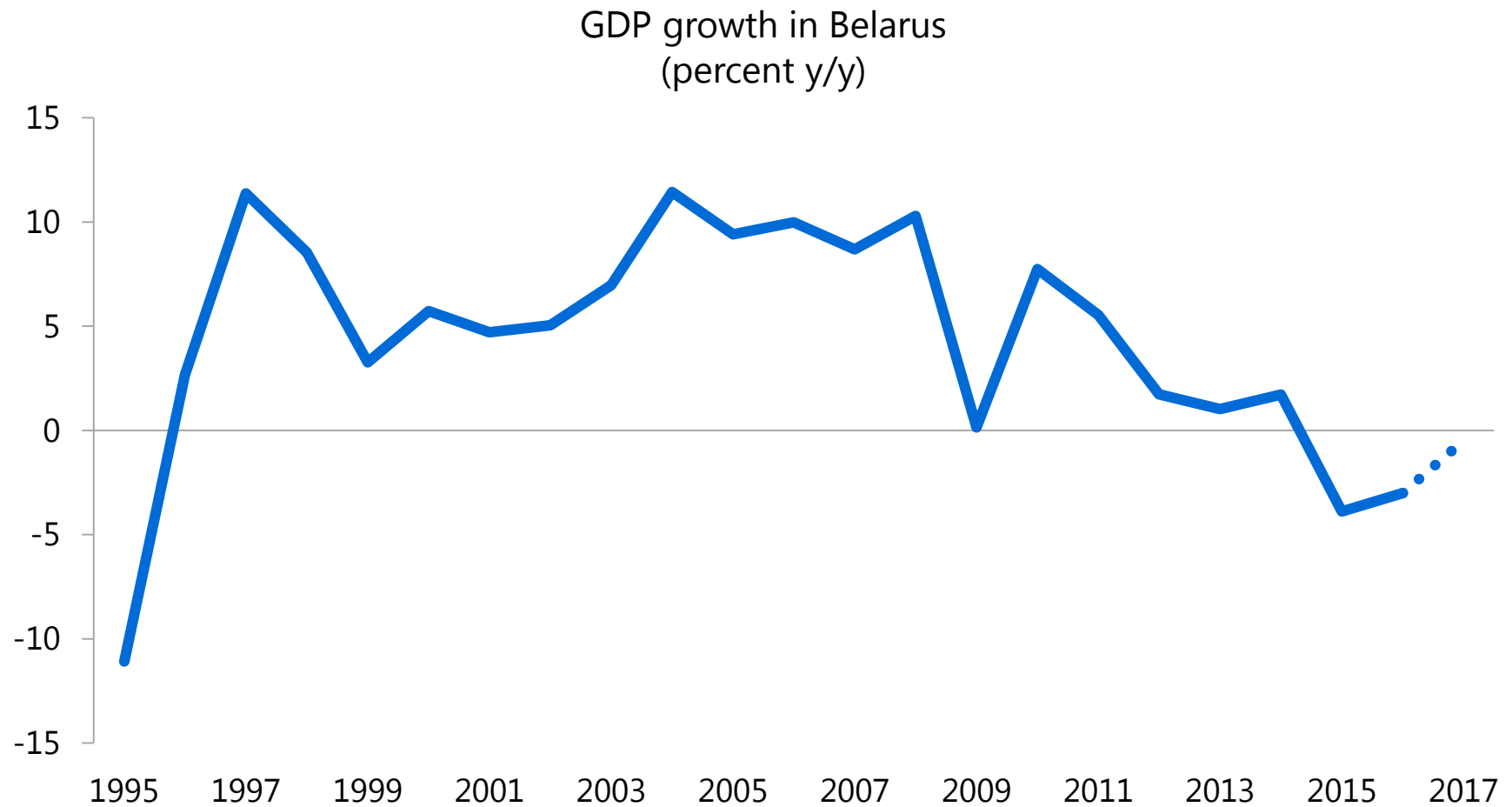
Changes in exchange rate and official reserves



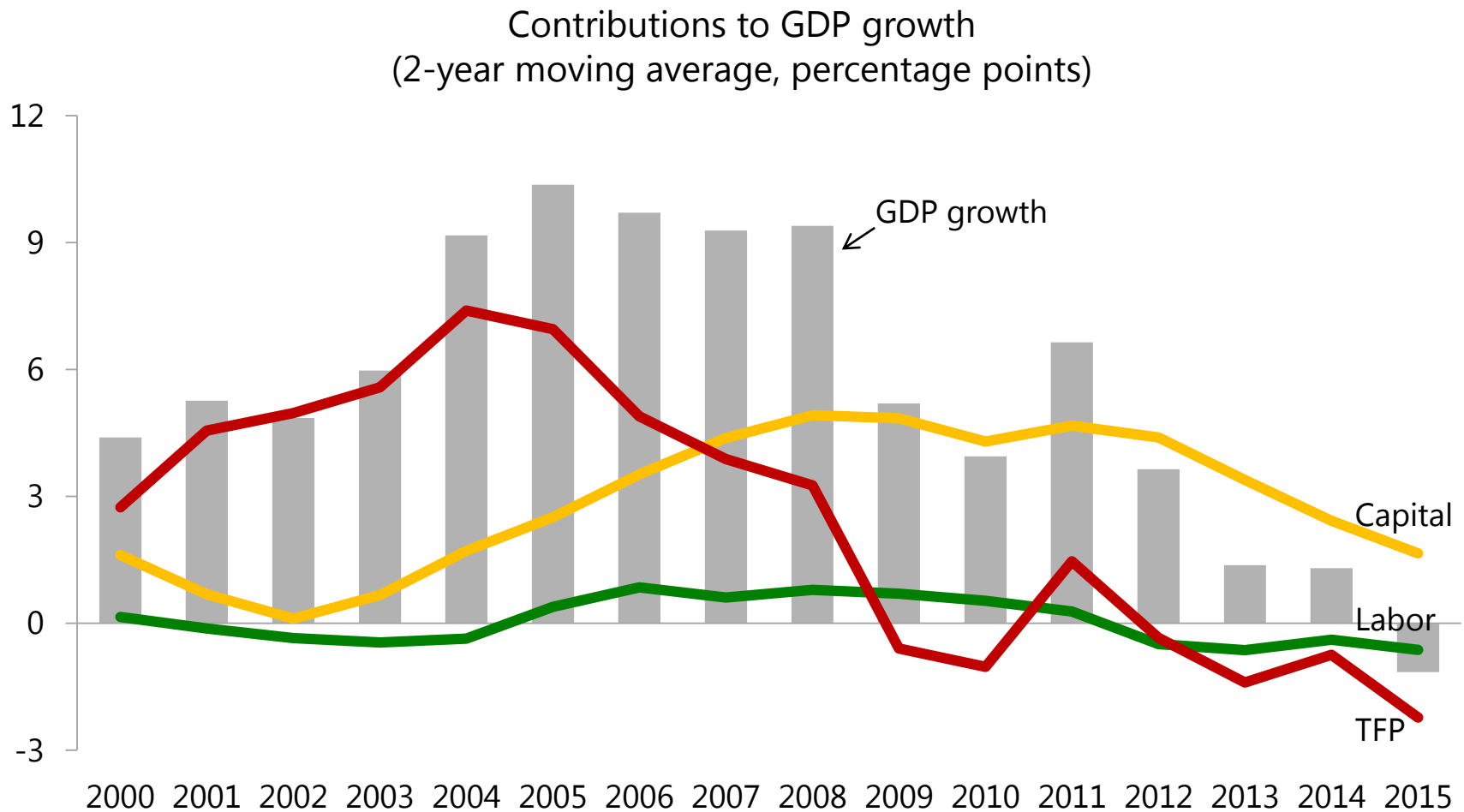
Exchange rate has now stabilized



How can we reignite growth?



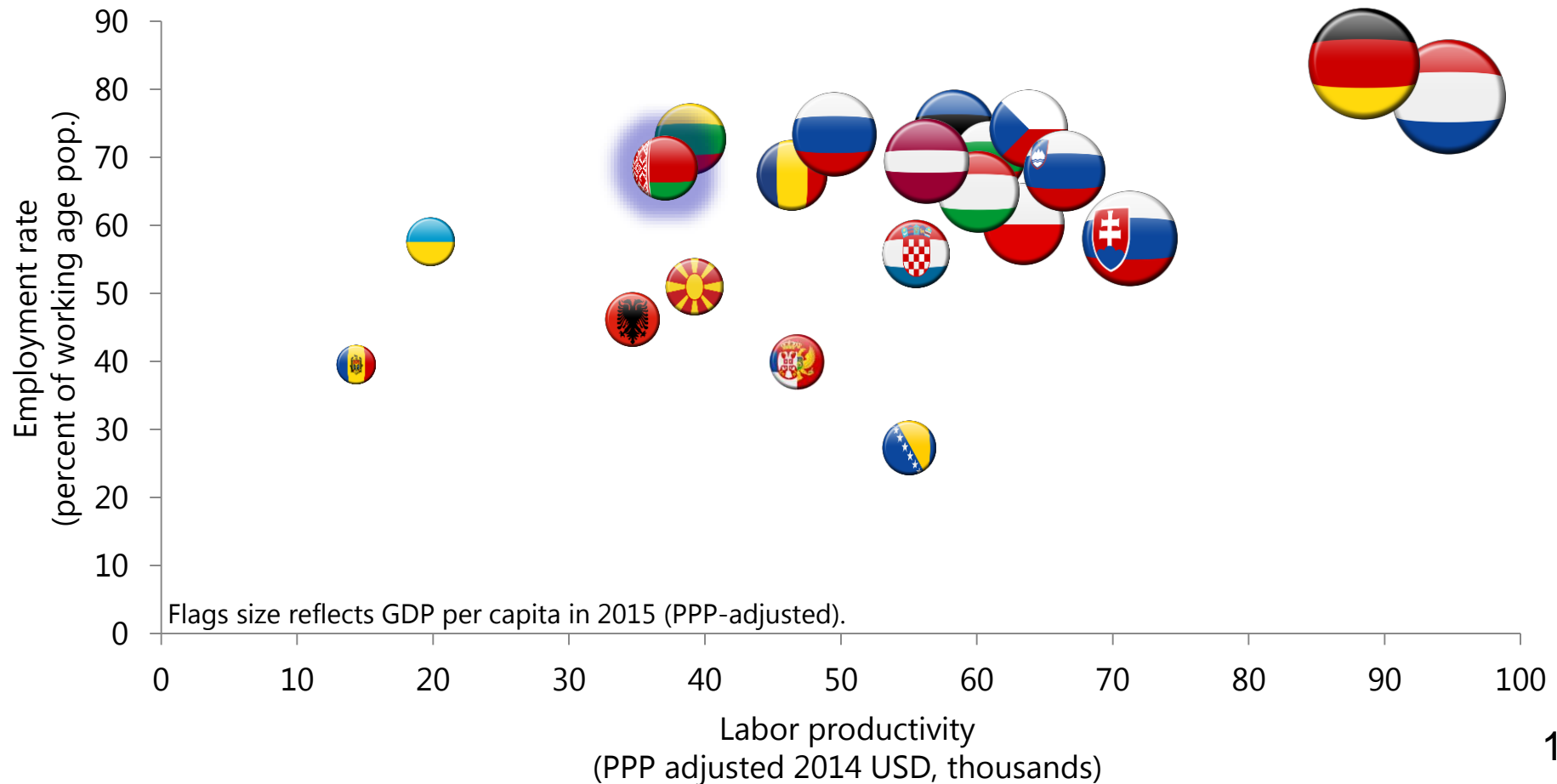
Not by another investment boom; higher productivity needed



What sets Belarus from other countries is not low employment, but low productivity



Labor productivity and utilization, 2015



Economic efficiency may be hampered by the too limited role of the price mechanism in allocating resources



- Examples:

- Absent hard financial constraint, many state-owned enterprises are loss making
- Household energy prices are below cost-recovery levels

Losses SOEs create macro problem



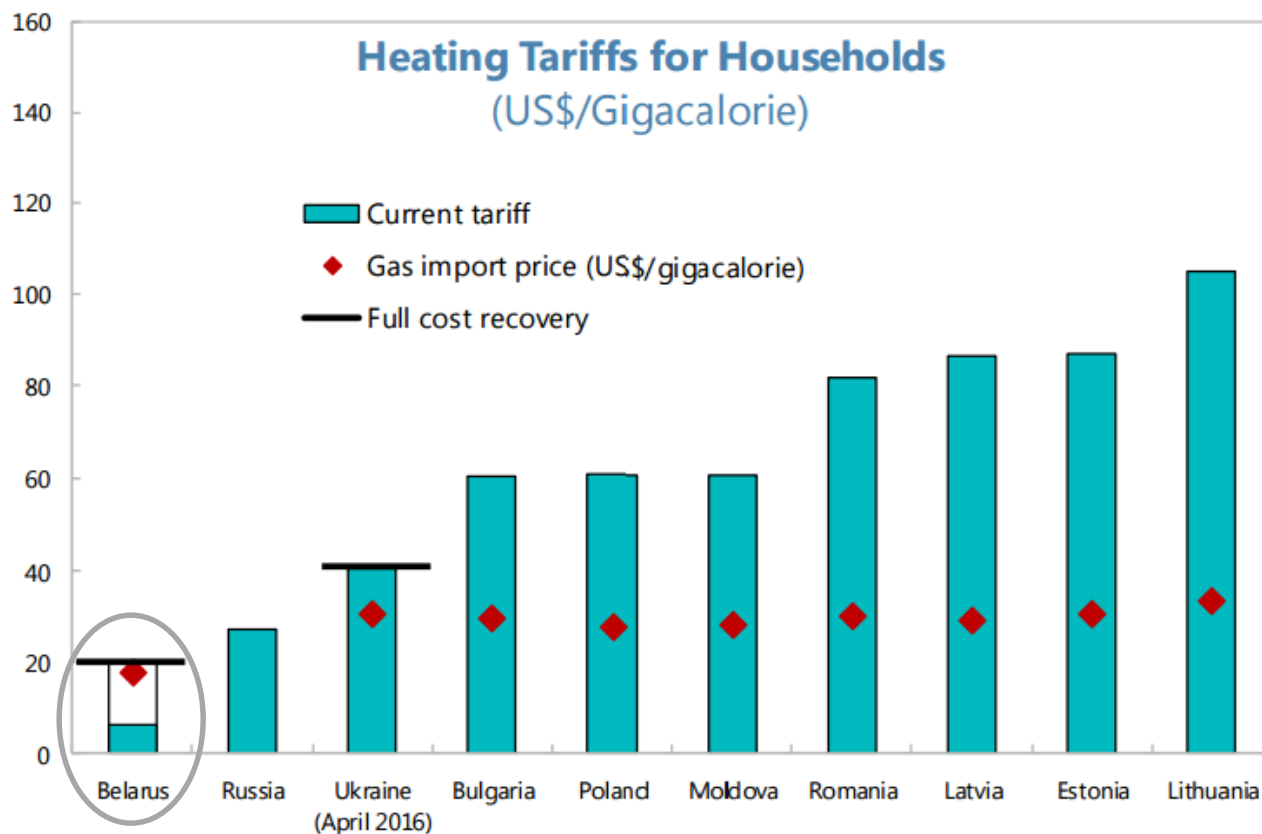
- They have to be compensated by
 - Higher fiscal expenditures
 - Or by cheap credit (directed lending)

Simply stopping transfers may create a banking sector problem



- SOEs need to be restructured
 - IMF providing TA on how to do this
- Strong social safety net needed to cushion adverse impact on unemployment
- Growth-enhancing policies, such as lending programs for privately-owned SME may help
- The World Bank is working on a loan/project to support SME lending.

Setting heating tariffs at cost-recovery levels and reducing cross-subsidization means lower subsidies and more incentive to use more energy-efficient technologies



Source: IMF Staff Report, September 2016. Methodology for calculating cost-recovery in Belarus has since changed.

The goal of reforms is to create a vibrant, efficient economy

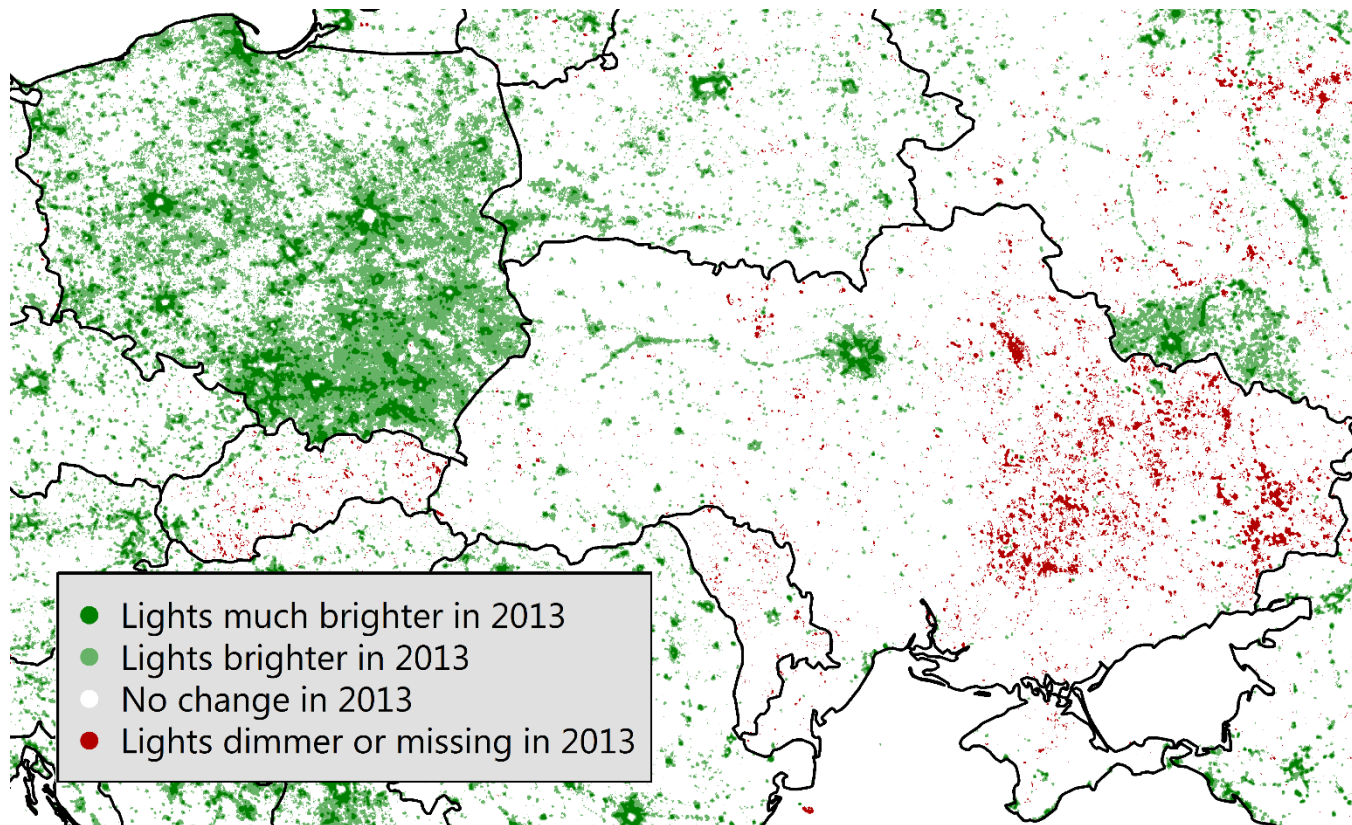


- Reforms can certainly be painful in the short run, but not transforming the inefficient economy can have even larger costs
- Example: in 1989 Poland and Ukraine were equally poor. Poland pursued transition reforms quickly, as opposed to Ukraine.

Today, Poland is three times as rich



Change in light during the night between mid 90's and 2012-13,
based on satellite images



Note: the map shows the differences in intensity of brightness between the averages of 1992, 94, 96-97 and 2012-13.



Thank you