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Statement by the Hon. **GENNADY V. NOVITSKY**,
Governor of the Bank for the **REPUBLIC OF BELARUS**,
at the Joint Annual Discussion

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Governor of the Bank for the Republic of Belarus,
at the Joint Annual Discussion**

Dear Mr. Chairman,
Dear Ladies and Gentlemen,

First of all, let me express my gratitude to the management and staff of the World Bank and IMF for the excellent organisation of the meetings.

Noting the highly important role of international financial organisations in reforming transition economies, we support a number of principled trends in the World Bank's activities in recent years, which were initiated and are implemented under the leadership of Mr Wolfenson, President of the World Bank.

What we mean is a more clear account by the Bank of its clients' specific features and needs, having the aim to improve the living standard and ensure conditions for economic growth.

We also welcome the expanded presence of the Bank in its member countries, particularly in transition economies.

At the same time, we stress our concern about the problem of the Bank's net income. We would like its solution not to harm the borrowing countries.

Taking into account and supporting new trends in the World Bank Strategy aimed at better account of specific features and conditions of its member countries, let me briefly outline the economic situation in Belarus at this stage.

Unsustainability of general economic position, caused by a number of negative factors affecting the national economy, is a characteristic feature of the social and economic situation in the republic in 1998-1999. It is connected both with the continuing effects of distortions and deep crisis phenomena in the Belarusian economy in 1992-1994 and new emerging destabilisation processes of external origin. From 1991 through 1994, Belarus like most countries of the former Soviet Union survived a period of hyperinflation and deep recession. At times the pace of price upswing exceeded 30% a month. During that period GDP dropped 2 times. In those circumstances the first and foremost priority of the governmental economic policy was to encourage economic growth.

From 1996 through 1998, the implementation of stabilisation measures to curb an overall output reduction, resume economic growth and increase the living standard produced positive results. According to the 1997-1998 outcomes, real GDP grew by 20.6%

(average annual growth pace was 9.8%) in comparison to the 1996 level, industrial output increased by 33%, real money incomes of the population went up by 25%.

At the same time, the conducted measures for financial improvement of the economy appeared to be not as fully fruitful as expected due to the remaining unsatisfactory inflation environment. All that badly affected the competitiveness of domestic products and led to accumulation of trade balance deficit and reduction in external reserves.

These as well as other negative trends grew under the predominant influence of the financial and economic crisis in Russia which is our major neighbour and one of the most important trade partners.

Its impact was most appreciable for the country's foreign exchange market, the condition and level of domestic prices and foreign trade.

It is enough to mention that since the second half of 1998 the pace of economic growth has considerably slowed down, financial position of domestic enterprises has deteriorated. Starting from August 1998, there has been a substantial increase in pace of inflation in the economic system of Belarus. From January through August 1998, the inflation growth was 3.4% in average monthly terms, while in September-December it reached 21.3%. As a result, real profitability of most enterprises turned negative. The share of loss-making enterprises in their total number rose from 12.3% in early 1998 to 14.2% by early 1999. The Belarusian rouble devaluated showing further widening in disparity between the official and market rates.

Affected by the said crisis processes, the demand on internal markets of Russia and other CIS countries went down. Owing to that, in 1998 Belarusian foreign trade turnover shrank by 2.3%, as compared with the 1997 level, including reduction in exports and imports, by 3.2% and 1.6% respectively.

However, among the noted difficulties in the country's economy, it was possible to achieve some positive results on most major macroeconomic indicators in 1998. Comparing with the 1997 level, GDP grew by 8.3%, industrial output - 12%, fixed capital investment - 16%, real money incomes - 19%. Despite a hard financial situation in the country, the external debt remained unchanged, the state budget deficit was maintained at a level lower than previously planned.

As for the performance of the country's economy in 1999, it should be first of all noted that a proceeding recession and instability in the economy of the Russian Federation as well as extremely unfavourable weather conditions in Belarus continue to exert their influence on the social and economic development of the Republic of Belarus.

According to the results of economic development for January-August 1999, actual GDP has grown only 1.5% in comparison to the same period of 1998; agricultural output has

been 10.2% less than the last year's level, fixed capital investment has decreased by 3%. Industry was the only stable working economic sector with growth at 106.6%.

The results for January-July 1999 show that given the same period of 1998, foreign trade turnover has shrunk by 26,9% including the decline in exports and imports by 21.6% and 31.3% respectively. Along with it, the share of barter operations has grown both in exports and imports. Changes in export structure were determined by unfavourable situation on world markets, instability and low solvency of markets in Russia and other CIS countries, increased competition on non-CIS markets with regard to many kinds of Belarus-made export products as well as by inefficient foreign exchange controls and preserved multiple exchange rate of the Belarusian rouble. Changes in import structure were mostly conditioned by financial instability and unsustainability of enterprise importers, general situation on the foreign exchange market and low solvency of both population and enterprises. At the same time, we should note a «spontaneous» reorientation of foreign economic flows to the West: for 7 months of 1999, exports to the Russian Federation have dropped by 39.5% while those to the western countries have risen by 33,1%.

The process of transition in Belarus is aimed at the creation of a «socially-oriented market economy» i.e. a economy which combines social and economic criteria of development, advantages of market competition and efficient social security system, the ideas of market self-control and state regulation.

The government is satisfied that in the prevailing circumstances this approach has lead to better results than have been obtained in other countries. For the last 3 years, output growth in the republic has been significantly higher than in other CIS countries. The 1999 UNDP Human Development Report confirms this progress: its Human Development Index of 174 countries shows that Belarus has moved up from 68th to 60th place.

Belarus is interested in economic reforms including public assets restructuring. It is evidenced by the fact that the current share of non-public enterprises in total industrial output is about 41%. Over 40% of the employed in the republic's economy work in the non-public sector.

At the same time, we adhere to reasonable restructuring of public and leasing enterprises with the attraction of external investments. The main objective of the ongoing state property reform is to increase production efficiency. This will be the basis for our activities in the forthcoming period.

And now I would like to characterise the relations of the Government of the Republic of Belarus with the IMF and World Bank.

In our view, neither the Government of the Republic of Belarus nor the IMF or World Bank are satisfied with their status.

Resumed discussions on possible financial support from the IMF under the Stand-by Arrangement has not been productive so far. The Fund refrains from extending a loan to the republic within the Compensatory and Contingency Financing Facility (CCFF) to compensate the losses resulting from decline in exports to Russia and poor grain crops in 1998.

This year we have so far failed to bring export deliveries to Russia up to the 1998 level, and as for the grain crops, the preliminary data show that we have harvested 12.5% less than in 1998 which was a poor harvest year as well.

Nowadays we have reached the awareness that the republic requires to comprehensively revise the basic principles of the existing monetary and credit policy. The Government has approved a finalised Monetary and Credit Policy Concept of the Republic of Belarus for 1999-2000. Its key points (targets and terms of implementation) will be reflected in a social and economic development forecast and the 2000 budget of the Republic of Belarus which are being worked out and will be based on a national currency stabilisation programme.

With such a programme, we are ready to initiate another negotiations with the IMF regarding elaboration of a joint economic programme to qualify for the IMF financial support within a stand-by loan.

I avail myself of the opportunity to note that the World Bank also promotes, to a certain extent, the economic development in Belarus. We highly estimate the Bank's support of the forestry and energy sectors and its technical assistance.

At the same time, the general character of the World Bank Country Assistance Strategy for Belarus effective since 1999 is, in our view, excessively tight and constrains the attraction of external credit resources to the country's economy. The main lending criteria, when applied to Belarus, are extremely strict and prevent us from full utilisation of the Bank's resources. The Bank's overcautious approach often hits the target quite opposite to one of the Bank's main objectives i.e. to promote market reforms in its member countries through rapid and adequate response to their needs and economic changes.

Unfortunately, the Bank's practical approach to Belarus lacks due attention to the regional features. We believe that a lending possibility assessment should be better based on the level of project efficiency, its recoument and role for the regional development in specific country conditions.

In this regard, allow me to express my hope that the Bank's priorities will change and the Bank will define a more flexible strategy which would take into account the necessity of complex development in the regions that are at different stages of transition to the market economy.

The Bank's financial support of social and environmental projects, private and energy sector development is of prior interest to the Republic of Belarus.

On our part, we will be insistent in improving general operation conditions and investment climate in our country and seek more intensive, open and comprehensive co-operation with the Bank on issues of mutual interest.

Today we are ready to start a dialogue with the Bank on preparation of a full-fledged Country Assistance Strategy including ramified scenarios of co-operation between Belarus and the World Bank.

In conclusion, I would like to express my hope for the Bank's and Fund's understanding of our problems on the way to the «socially-oriented market economy» and concrete support in their solution.

I thank you for your kind attention.