

INTERNATIONAL MONETARY FUND

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Press Release No. 9

October 3, 2004

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

Address by A. V. Kobyakov, Deputy Prime Minister of the Republic of Belarus and Governor of the World Bank for the Republic of Belarus at the Annual Meetings of the Board of Governors of the World Bank and the IMF (Washington DC, USA, October 2-3, 2004)

Distinguished Mr. Chairman,
Distinguished Governors, Ladies and Gentlemen,

The year that has elapsed since the last Meetings was a year of difficult trials for the international community as a whole, and a rigorous test of the strength and stability of the current system of international economic relations. The processes of globalization and integration, which are unfolding in a highly complex manner, have intensified the unevenness of various nations' economic development.

The trends that have emerged have also had a substantial impact on our Republic's development, whose effectiveness has depended in large part on the precision with which worldwide political and economic processes are coordinated with national interests and capabilities.

What was this year like for our country? The Economic Development Strategy of the Republic of Belarus, its goals and tasks, its basic principles, priorities and phases, are based on an analysis of our nation's place and role in the international community and on an assessment of domestic and external preconditions and factors of economic growth and social development.

Despite a number of objective challenges, Belarus continues to be a dynamically developing nation with sustainable growth in GDP as well as industrial and agricultural production, a relatively stable banking system, insignificant external indebtedness and a well-developed export capacity.

Since 1996 we have consistently pursued a chosen course of phased economic reforms, seeking in every phase to combine the state's regulatory functions and the market mechanisms in a reasonable manner. This has enabled us over the past nine years to ensure sustainable economic growth and social stability and to make progress towards achieving the strategic goal of the country's socioeconomic development—to improve the living standards of the Belarussian people and bring them closer to the level of the developed European nations.

For example, from 1996 through 2003 Belarus increased its gross domestic product 1.5 times, or by an average of 6 percent a year (6.8 percent in 2003). This made it

possible to increase real personal monetary income 2.6 times during the 1996-2003 period (including 7.5 percent in 2003).

Belarus has a developed industrial capacity, which can produce goods that are competitive in the world market both in price and quality. And this is confirmed by economic performance. Since 2000 we have steadily increased exports of goods and services. In 2003 it rose by 24.6 percent, and in the first six months of 2004, by 27.8 percent.

Reducing the inflation rate and ensuring stability in the foreign-exchange market have contributed to favorable macroeconomic conditions for production operations and investment activity.

The stable growth in GDP and personal monetary income, as well as the improvement in the financial performance of businesses in the real sector of the economy have resulted in increased budget revenues, and created a realistic opportunity to reduce the tax burden on the economy. It is no secret that the tax level in Belarus remains quite high. For example, in 2003, the overall level of the tax burden in the Republic, calculated as the ratio of imputed and paid taxes and levies to GDP, was 32.1 percent, and when deductions for social insurance are factored in, it was 42 percent. In 2004 it will drop by 1.8 percentage points, but will still be high.

The tax system is being improved primarily by lowering taxes and levies, simplifying procedures for paying them and reducing tax rates.

In 2002, for example, we were able to reduce the corporate income tax rate from 30 to 24 percent, which yielded certain results in increasing investment activity.

In order to keep Belarussian goods competitive and lower the inflation rate, the standard value-added tax rate was lowered from 20 to 18 percent at the start of 2004. All the preconditions are now in place for a changeover on January 1, 2005, to the “country-of-destination basis” in the taxation of foreign trade with the Russian Federation, and all the necessary documents are being prepared to ensure this changeover.

The reform of a second area of fiscal policy—government expenditures is equally urgent. There is much truth in the folk saying, “Getting rich depends not on income but on spending.”

While preserving the social orientation of the budget, budgetary policy in the near term will be aimed at optimizing government expenditures and significantly improving the effectiveness of the use of budgetary funds.

Along these lines, in 2003 we began to take measures to reduce preferential benefits. State support is now being provided to business entities mostly in the progressive forms that are in worldwide use.

At a time when domestic financing sources and the budget are limited in their capacity for increasing investment and innovative activities, we welcome foreign investment. Many experts have concluded that Belarus has indisputable capabilities for attracting foreign capital to its economy on a wide scale. They cite such obvious arguments as the fact that Belarus is the gate to the Russian market for the EU, retains political stability, has a pretty good regulatory and legal framework, fine social and living conditions, highly skilled and cheap labor and a small foreign debt.

A few words about cooperation with the World Bank. The implementation of the Bank's Country Assistance Strategy for the Republic of Belarus for 2002-2004 is being completed in 2004. Its results were discussed in detail with Bank vice-president Shigeo Katsu during his recent visit to the Republic. An understanding was reached that there is now a need for a fundamental review of the format of cooperation with this international financial institution.

The lessons of past years dictate the need for a more balanced and flexible approach to defining a program of cooperation with the World Bank, which takes account of its changing priorities and the trends in the Republic's macroeconomic situation. The rigid framework of the three-year Country Assistance Strategy program does not afford this kind of flexibility. It would be more acceptable, in our view, to consider a cooperation option that is based on a Country Partnership Strategy, which does not include a rigid operational program.

We have proposed to the Bank a broad spectrum of areas for cooperation in the near term. We hope this dialogue will be productive and will take account of the lessons of previous years of cooperation, which, as "The World Bank Country Assistance Strategy for the Republic of Belarus in 2002-2004" properly notes, show that "there is little to be gained by pushing the policy dialogue (and conditionality) envelope beyond what the government can consider part of its own program."

With respect to cooperation with the International Monetary Fund, several disagreements have persisted between the Government and the IMF for quite some time concerning the rate and areas of the Republic's economic development. I want to emphasize in this regard that the Belarussian authorities have never rejected the Fund's recommendations as a whole. We completely agree with the strategic approaches—the formation of an effective market economy. In early 2004 the Government and the National Bank adopted a joint decision not to attract the Fund's financial resources at this stage.

Considering that there are several other mechanisms of cooperation with the Fund that provide for the use of that international financial institution's financial resources solely in the event of unforeseen circumstances, we think it is possible to work with the Fund in this direction in the future.

The technical assistance provided by the World Bank and the International Monetary Fund has made it possible to accomplish a number of the Republic's pressing tasks. Work with the IMF in this area has produced concrete results in improving the functioning of the National Bank and the system of collecting, tabulating and disseminating statistical information and in working out actions designed to combat the funding of terrorism and the legalization of illegally obtained income.

We would like to take note of the productive dialogue and cooperation with the World Bank within the framework of technical and advisory assistance on issues of environmental protection, social protection, pension system reform, poverty assessment, business climate improvement, and other areas.

We have an interest in expanding cooperation both with the Bank and the Fund, and are ready to do so.

The Republic of Belarus favors keeping the position of IMF representative in the country on a permanent basis.

In conclusion, I would like to urge the World Bank and the International Monetary Fund to develop their highly important activities with a view toward enhancing their effectiveness, client focus and transparency, and to wish everyone success.

Thank you.