

Belarus Macroeconomic Performance



Economy of Belarus: At a Tipping Point Conference

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Belarus Macro-economic performance in historical and cross-country perspective

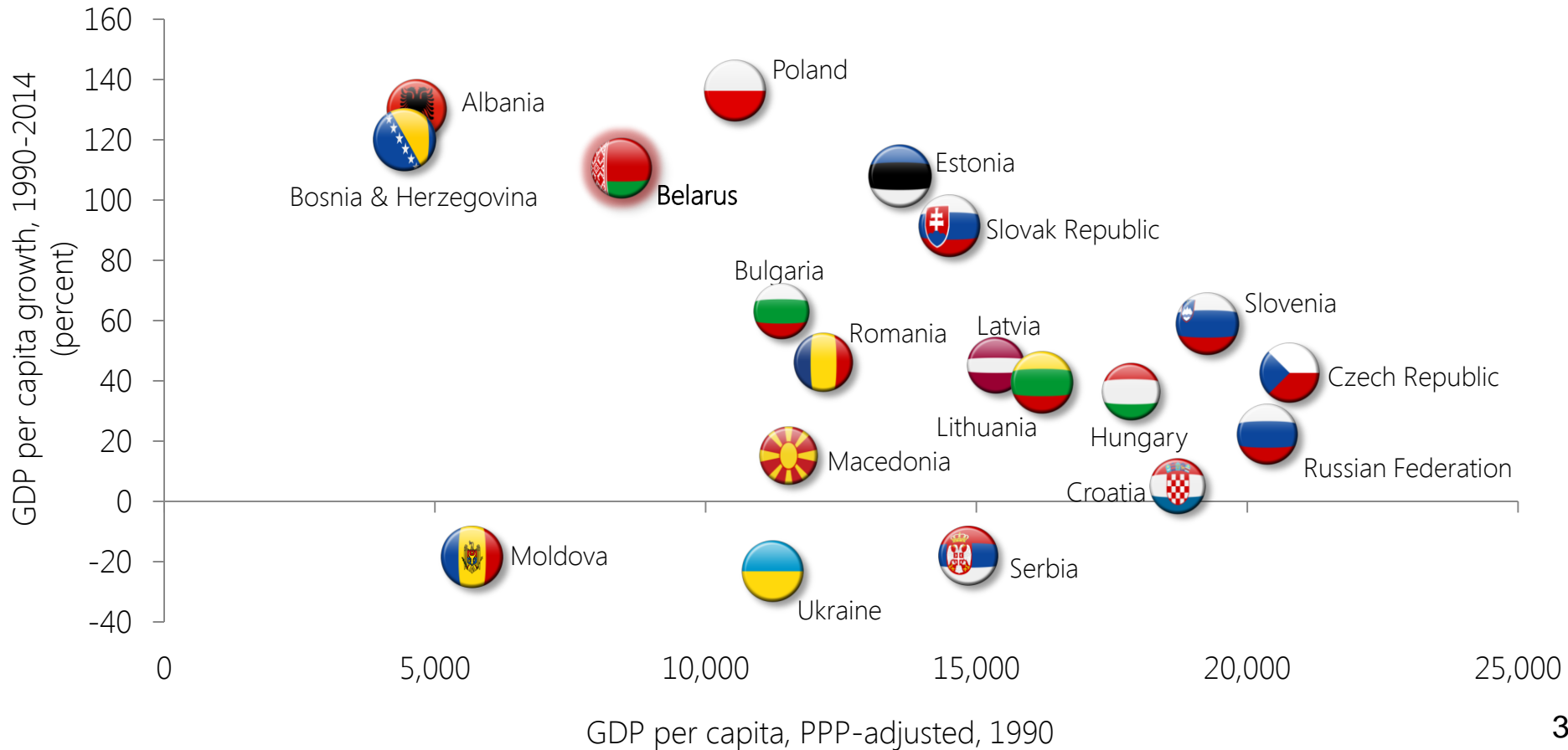


- How does Belarus post-transition experience compare with other countries?
- Why has growth slowed down in recent years?
- Is the growth model sustainable?
- How can it be fixed?

Seen over the entire 1990-2014 period, growth in Belarus has been quite strong



GDP per capita growth, 1990-2014



But in recent years it has run out of steam

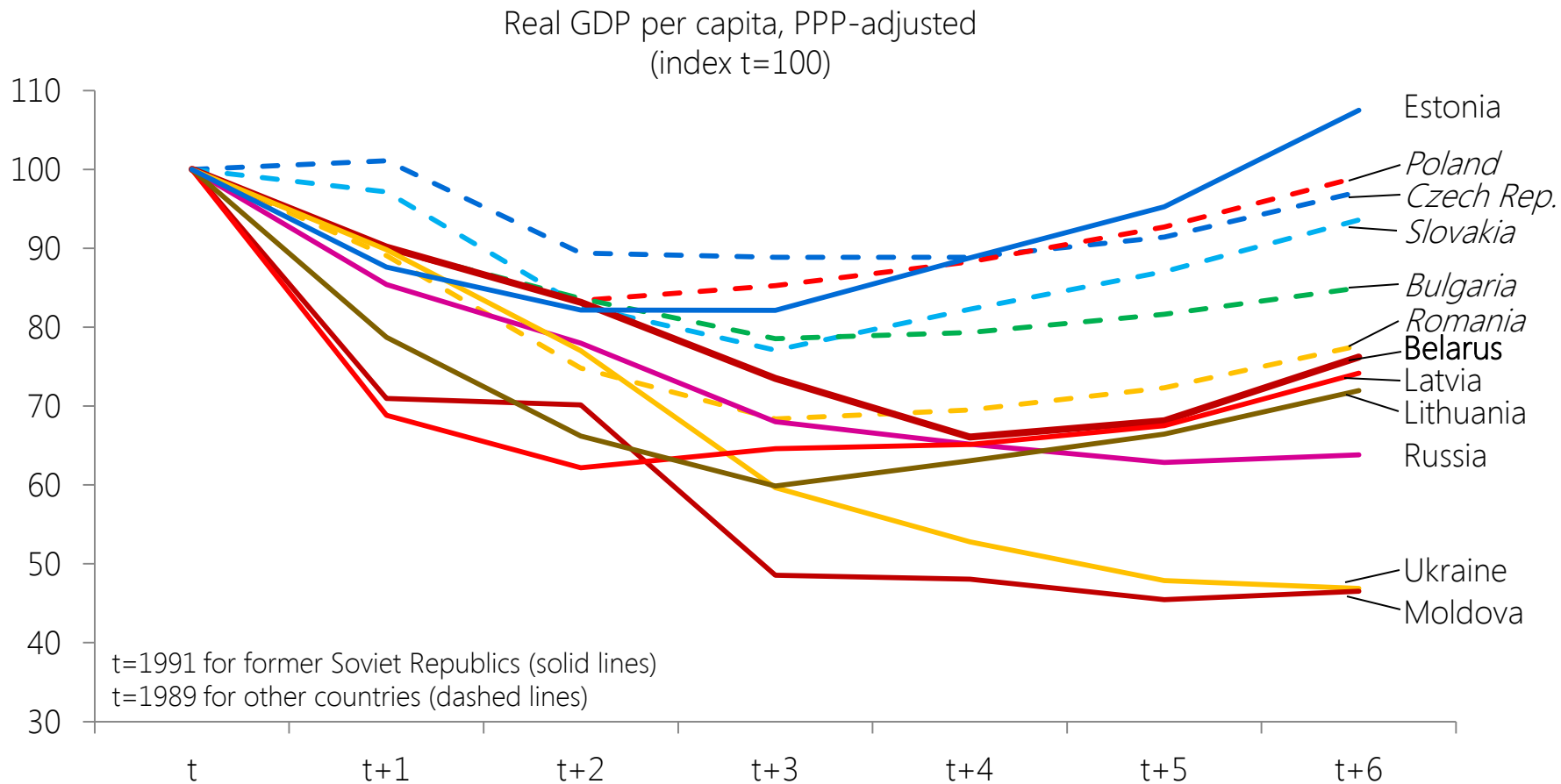


Three phases in Belarus macro performance since independence:

- Post independence contraction (1992-1995)
- Boom years (1995-2009)
- Slow growth (2010-201[5?])

- Hopefully fourth phase:
 - Sustainable growth, 2016-

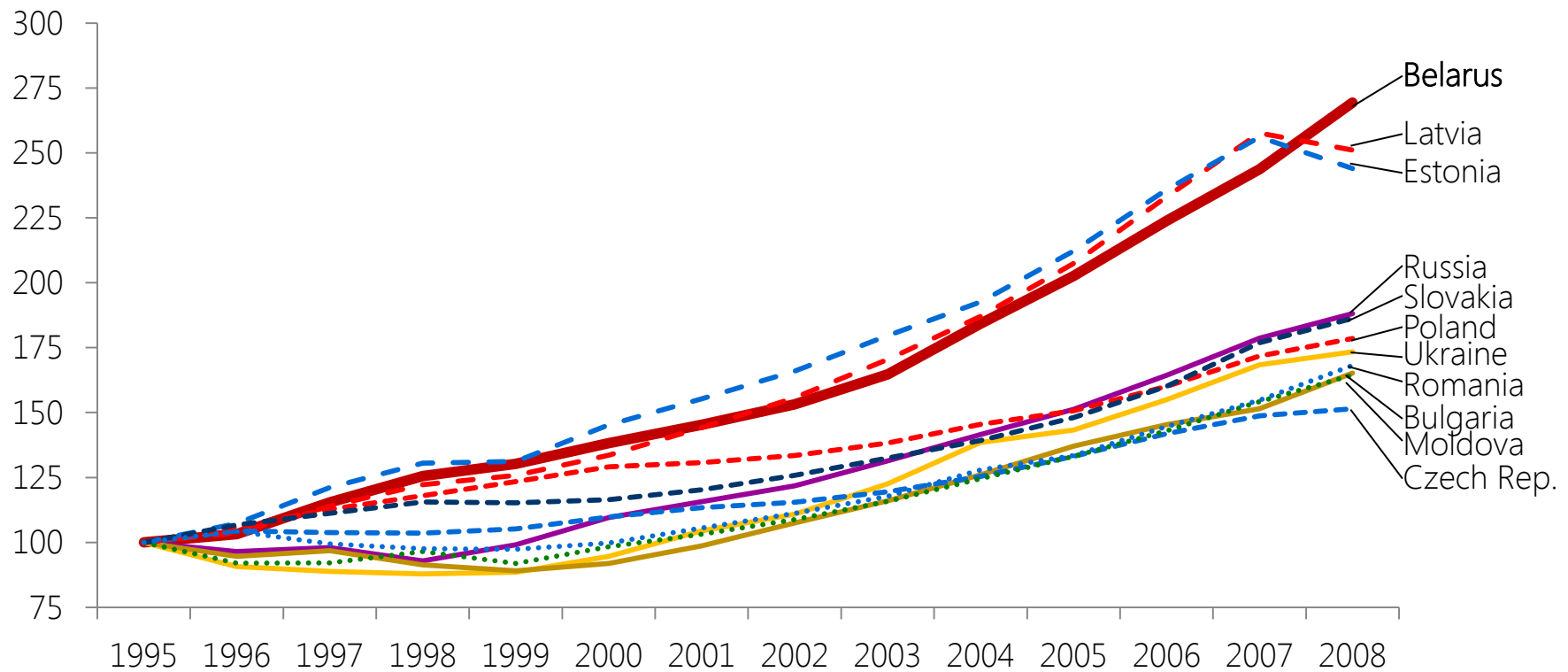
Sharp decline in GDP in the early transition



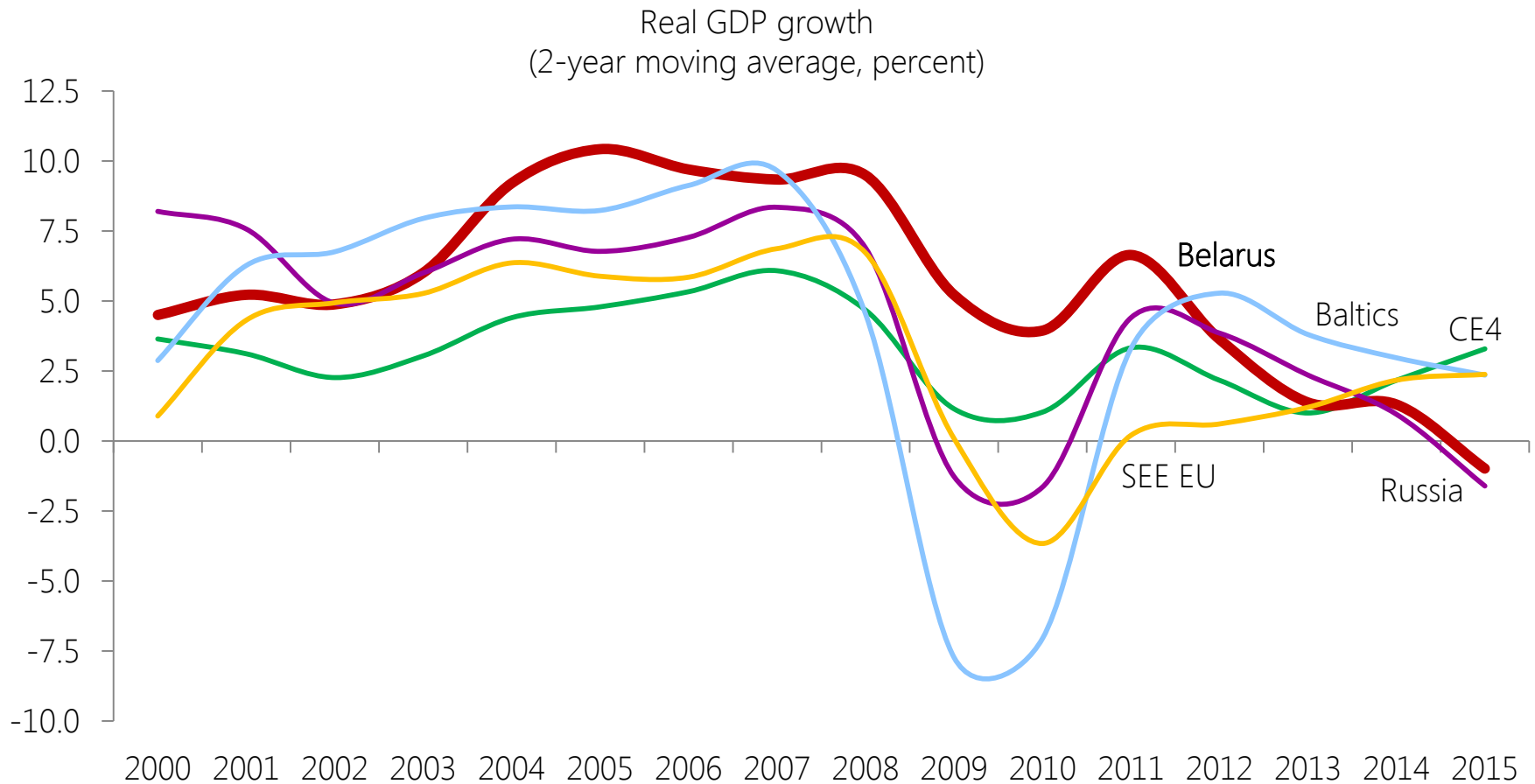
1995-2008: rapid growth



Real GDP per capita, PPP-adjusted
(Index 1995=100)



Since 2009, growth has slowed sharply



External factors have certainly played a role in the slowdown: Belarus export markets have done poorly

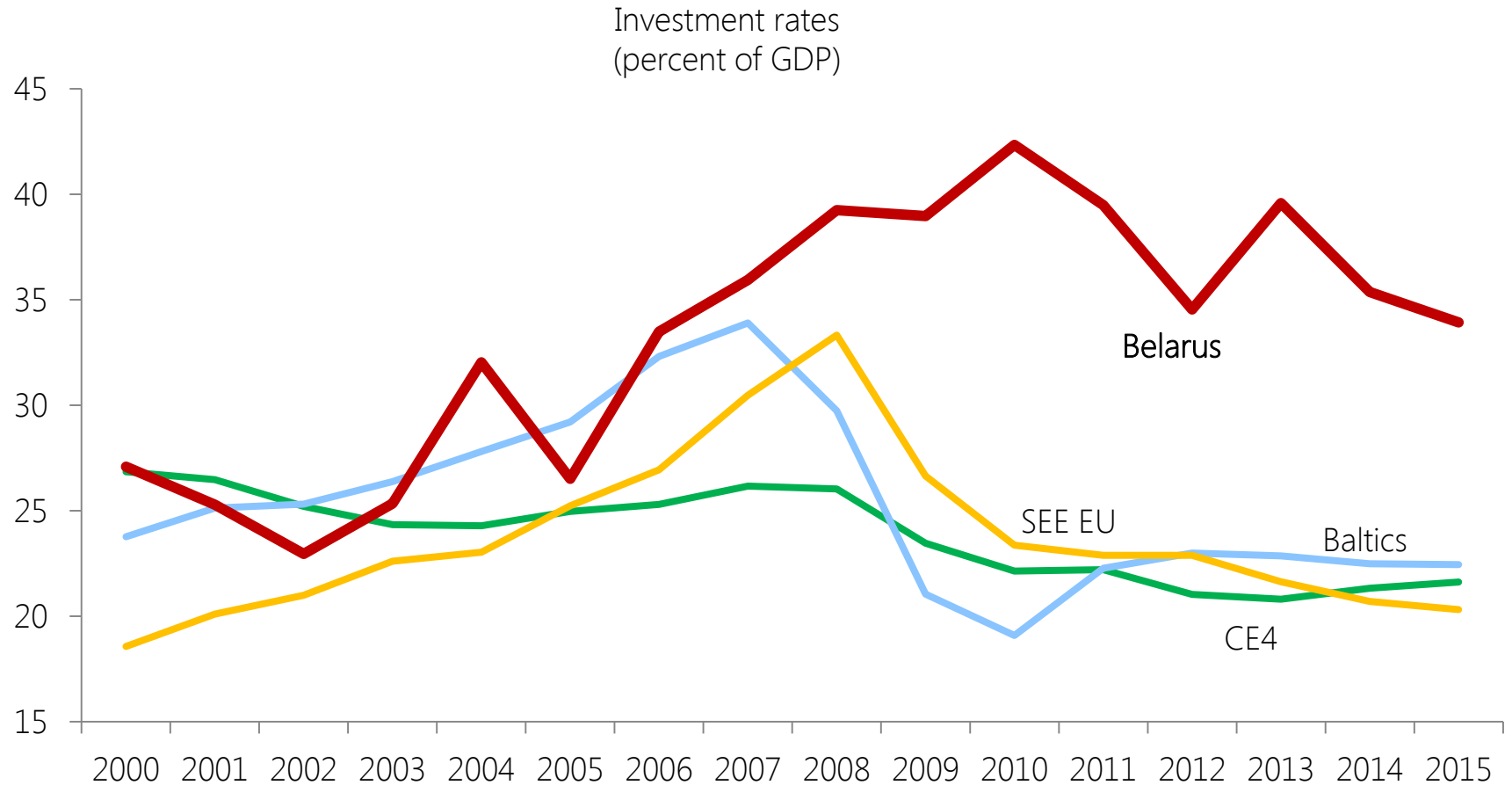


But there is also a more structural problem



- Growth was increasingly driven by unsustainable investment /domestic demand boom
 - This led to BOP crises
 - Productivity (TFP) declined, offsetting the impact of the larger capital stock

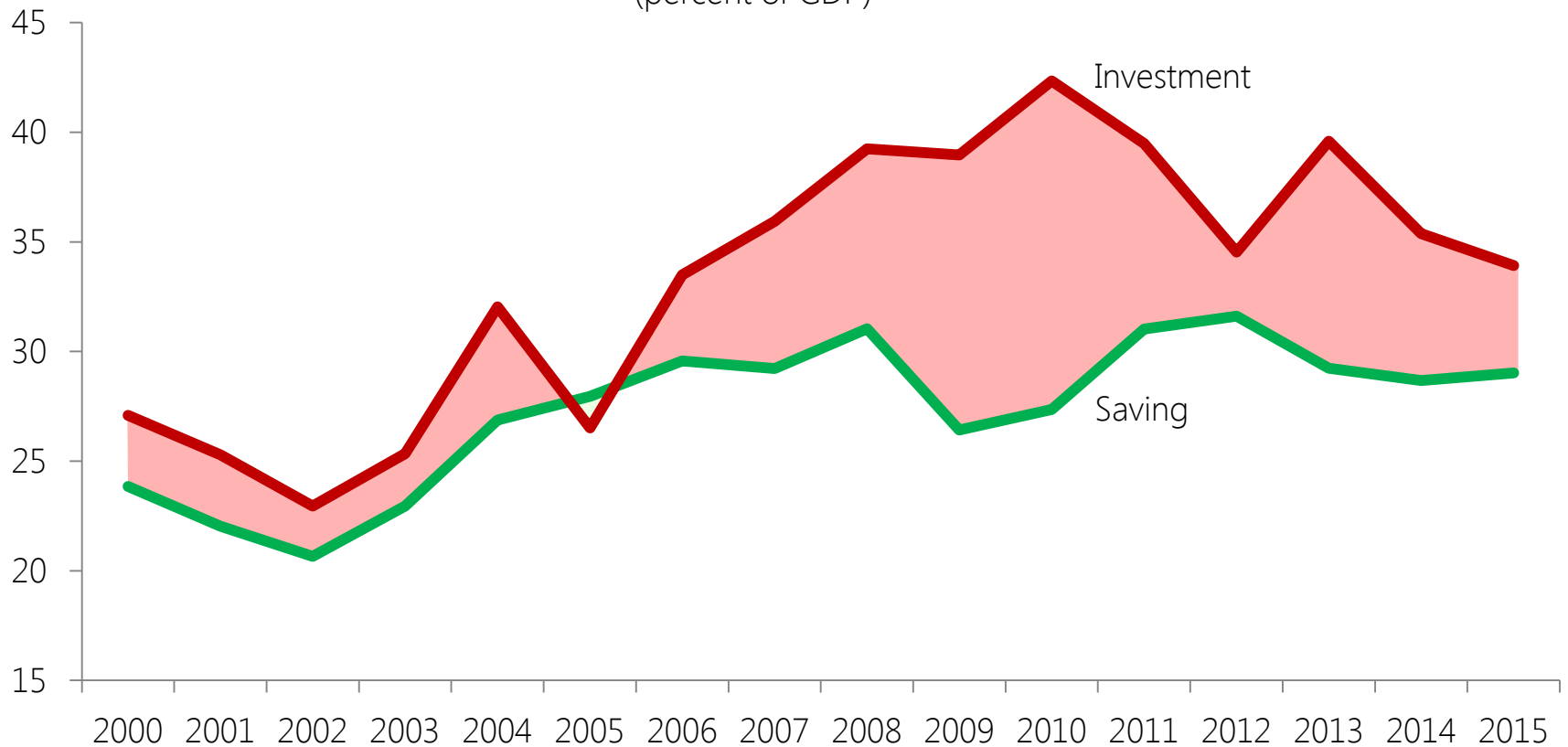
Investment to GDP ratio increased sharply in the 2000s



As domestic saving was not sufficient...



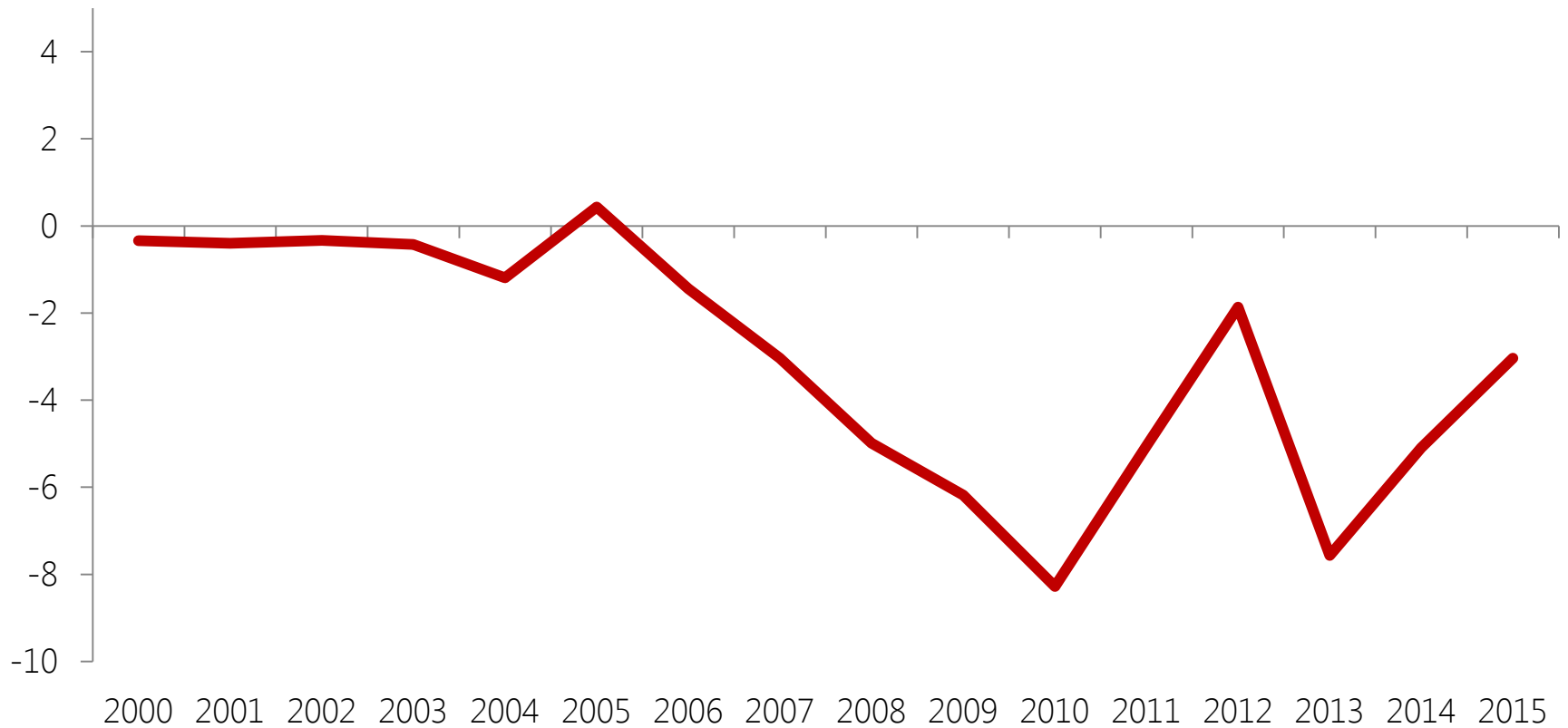
Investment and saving rates
(percent of GDP)



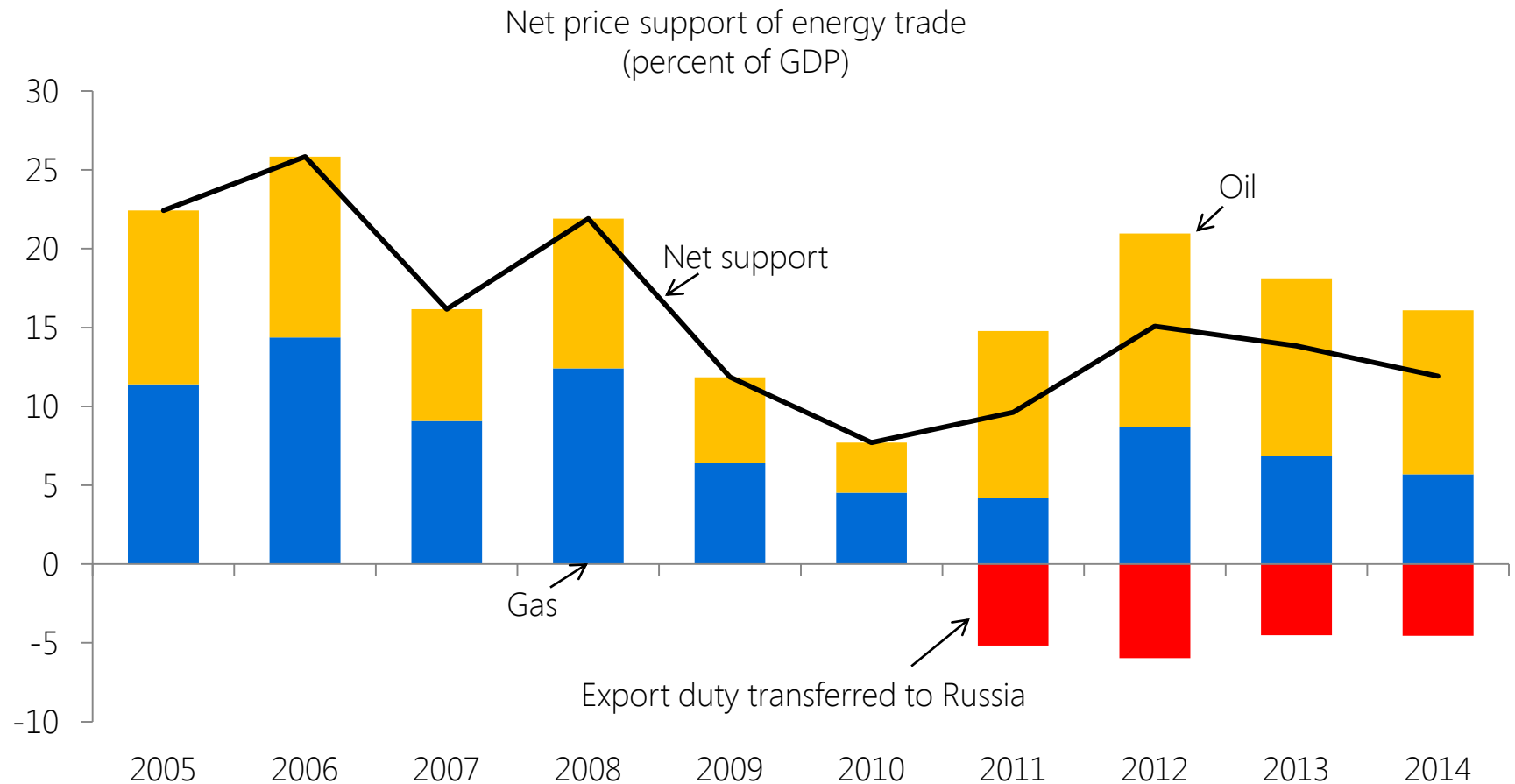
...the current account deficit increased sharply...



Current Account Balance
(percent of GDP)



...and would have been even higher without support from Russia.



External debt accelerated



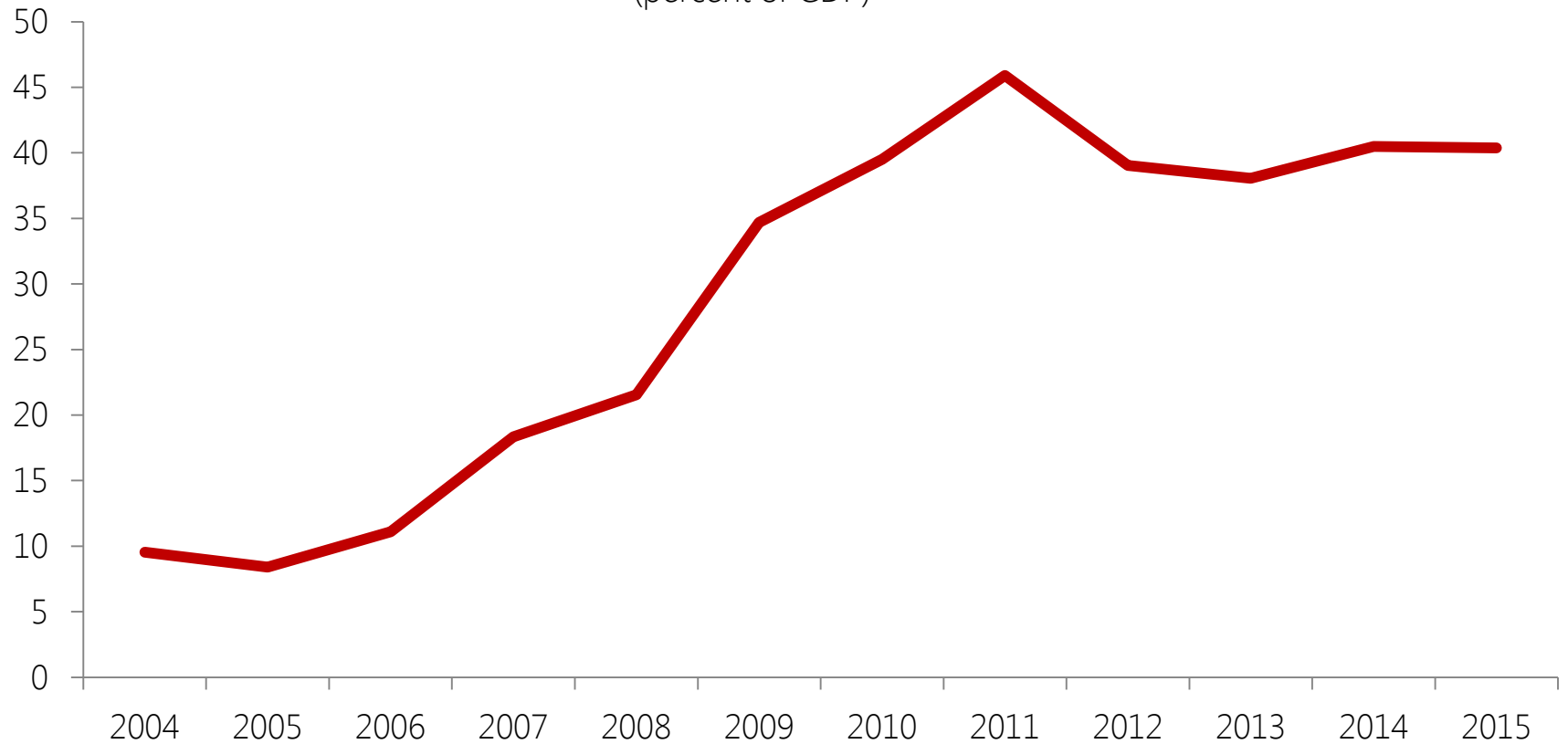
External debt
(percent of GDP)



As did public debt.



General government debt
(percent of GDP)



Wages increased strongly



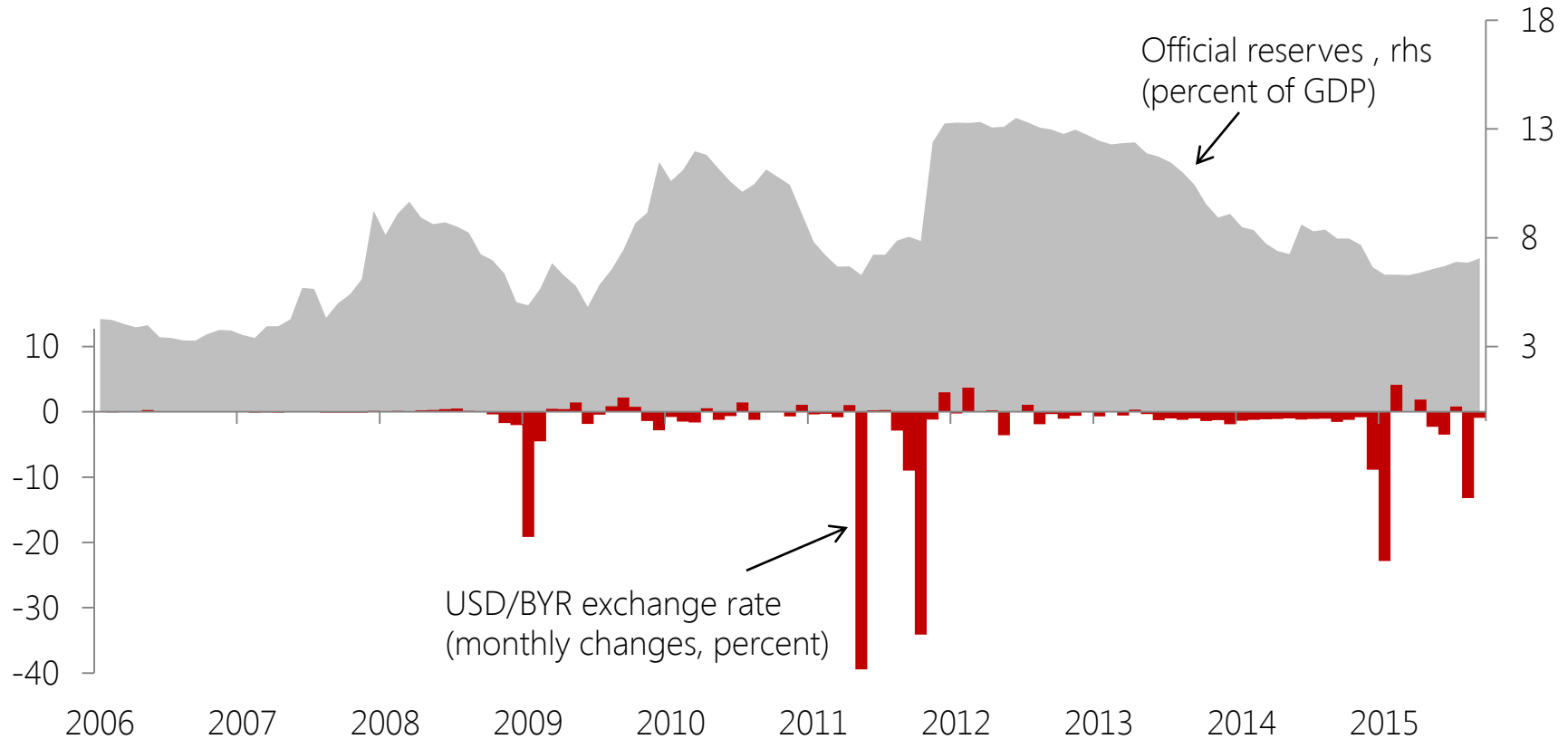
Average monthly wages in USD



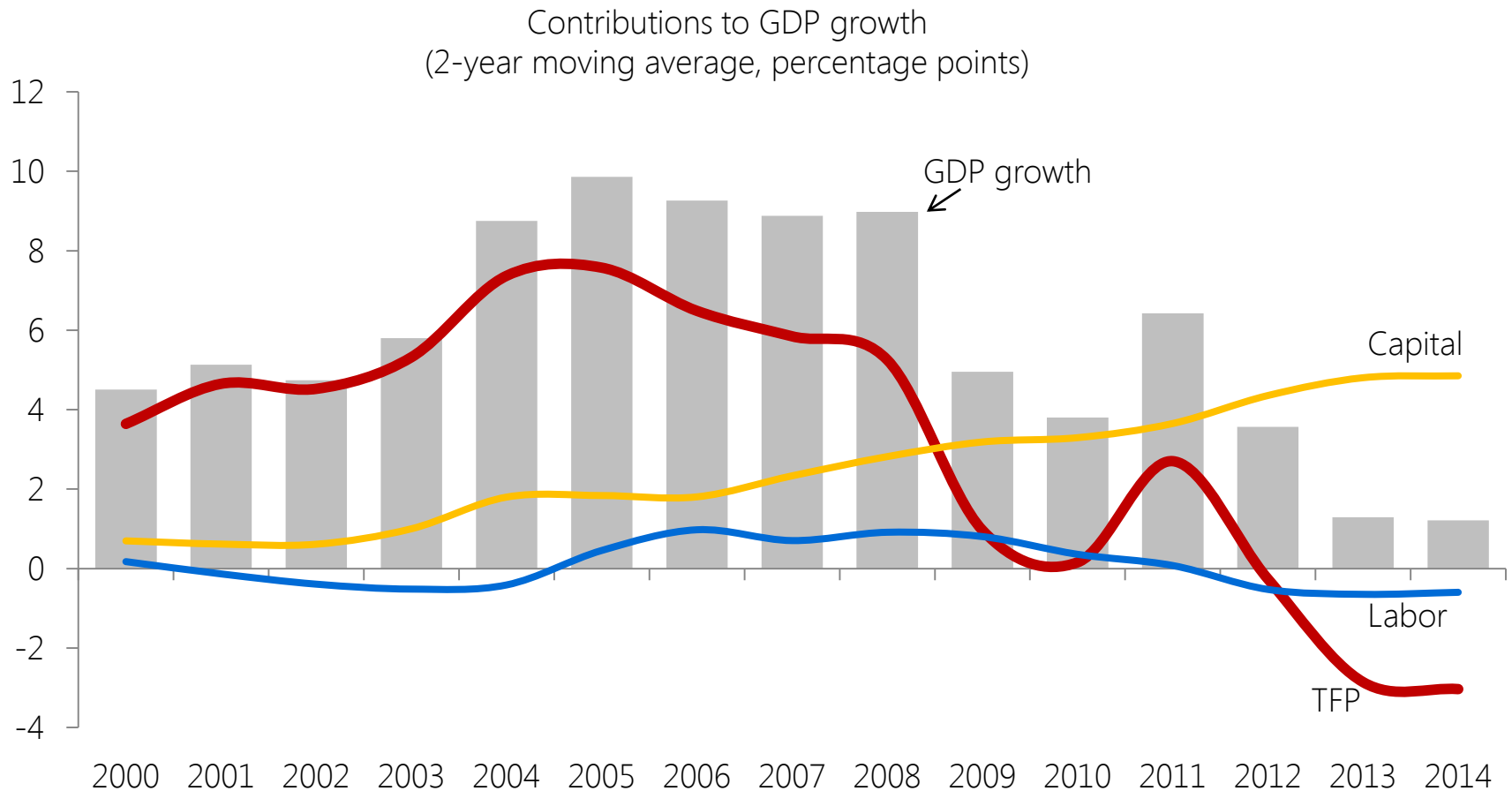
The situation became unsustainable and several BOP crises occurred



Changes in exchange rate and official reserves



Strong investment increased the capital stock, but this was increasingly offset by falling TFP



Without reforms, two options



- Following current model and given liquidity constraint, there are two options going forward:
 - Internal devaluation → lower living standards
 - Printing money and another BoP crisis → lower living standards

So reforms are needed



Belarus has two problems

- Macro problem
 - Large imbalances, repeated BOP crises
- Micro problem
 - Productivity is too low

Problems are linked: unproductive firms exacerbate BOP pressures



Fixing macro problems



- External imbalances and inflation need to be reduced
- Directed lending should be phased out
- Free floating exchange rate should be maintained

Fixing micro problems will help fix the macro problems



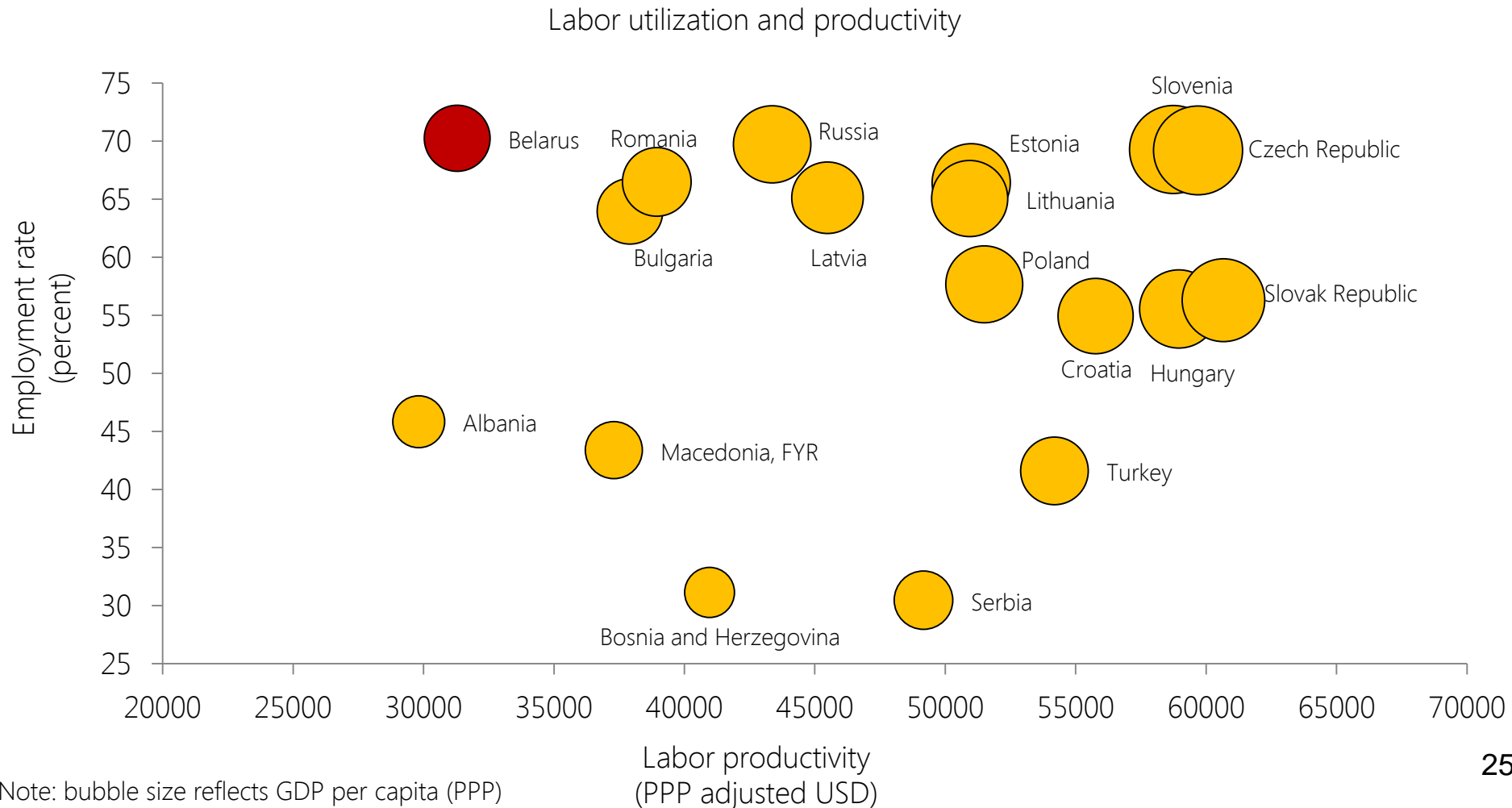
- Structural reforms will be needed to break the cycle of recurring crises:
 - Price liberalization
 - Ensure cost-recovery level of utility and transport tariffs and reduce cross-subsidies
 - Phase-out of mandatory targets for enterprises
 - SOE restructuring/privatization
 - Improve social safety net, ie. unemployment insurance

Overarching theme; more market mechanism needed



- Private sector is small compared with other countries
- Many loss-making state-owned enterprises
 - Create a macro problem (losses need to be financed)
 - Create a micro problem—not very efficient

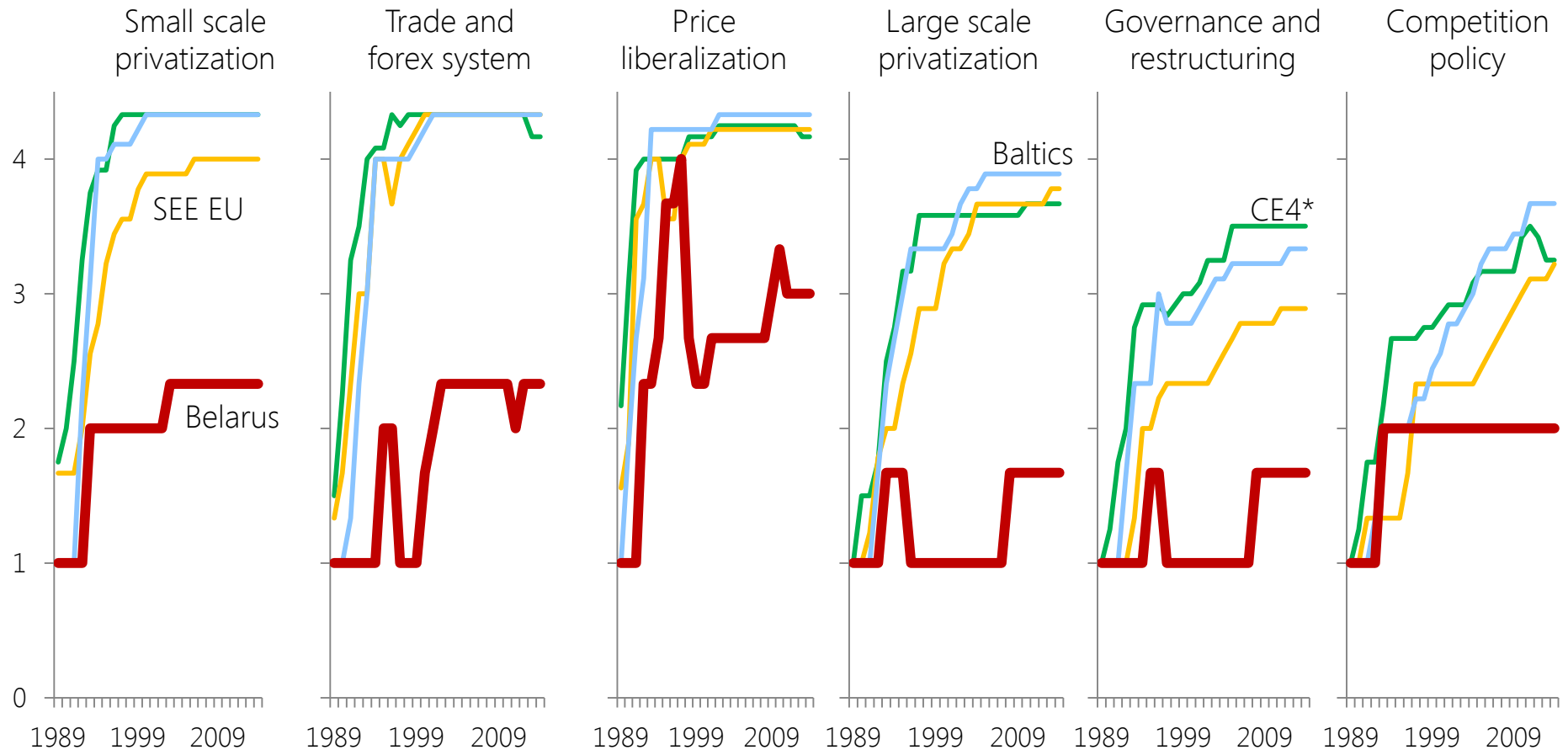
Productivity in Belarus is low and needs to be increased



Belarus needs to catch-up with transition



EBRD transition indicators



*CE4 includes Hungary, Poland, Slovakia and Slovenia.

Lessons from Early Transition



- In the early 1990s economists had strong disagreements about whether transition should be gradual or more rapid
- In the end, some countries (Czech, Poland, Baltics) opted for rapid; Others (CIS, Bulgaria) for more gradual

What were the results?

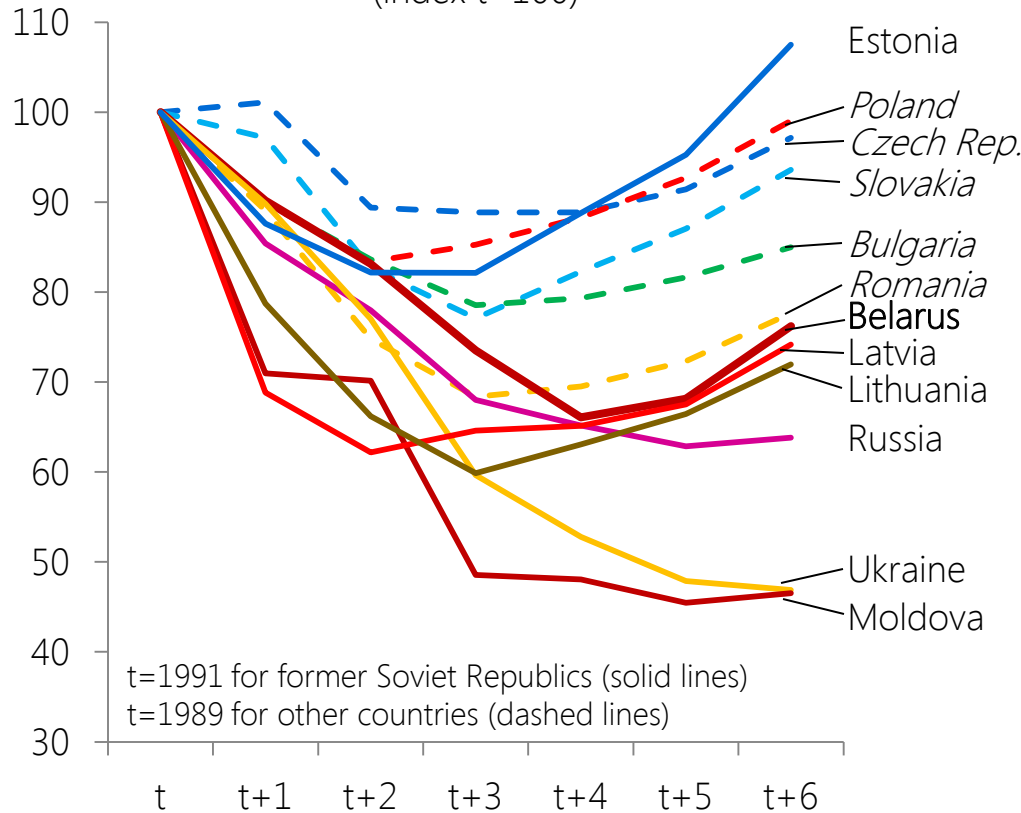


- Rapid liberalizers had a much shallower recession—as well as strong long-term growth
- So waiting with liberalization did not moderate the pain—it exacerbated it.

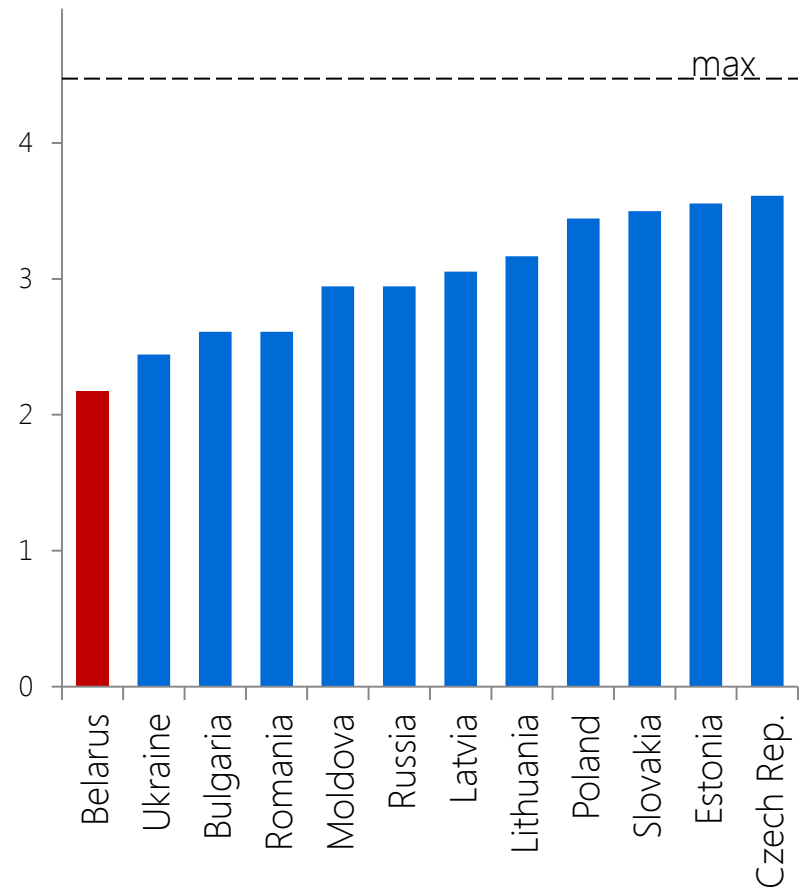
Sharp decline in GDP in the early transition



Real GDP per capita, PPP-adjusted
(index t=100)



Average of six EBRD transition indicators, 1995



Conclusions



- Belarus has had rapid growth
- But growth model no longer sustainable
- Reforms and more market mechanism needed
 - To fix macro problems
 - To fix micro problems
- Waiting with reforms may exacerbate pain—not lessen it.



Thank you