Belarus Macroeconomic Performance

Economy of Belarus: At a Tipping Point Conference

Minsk, November 3-4, 2015
Bas B. Bakker
Senior Regional Resident Representative for Central and Eastern Europe
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.
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

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

t=1991 for former Soviet Republics (solid lines)
t=1989 for other countries (dashed lines)
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.

Export market growth (percent y/y)

Note: export market growth is weighted average of Belarus' trading partners real GDP growth, covering over 95 percent of exports.
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...
...the current account deficit increased sharply...
...and would have been even higher without support from Russia.

\[\text{Net price support of energy trade (percent of GDP)}\]

1/ Price support is the difference between world oil/natural gas market prices and the prices used for transactions between Belrus and Russia.
External debt accelerated

External debt (percent of GDP)

As did public debt.
Wages increased strongly

Average monthly wages in USD
The situation became unsustainable and several BOP crises occurred.
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

Belarus share of Russia’s imports (percent)

Break in series
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

- Small scale privatization
- Trade and forex system
- Price liberalization
- Large scale privatization
- Governance and restructuring
- Competition policy

*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

- Belarus
- Ukraine
- Bulgaria
- Romania
- Moldova
- Russia
- Latvia
- Lithuania
- Poland
- Slovakia
- Estonia

t=1991 for former Soviet Republics (solid lines)
t=1989 for other countries (dashed lines)
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