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

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Global growth has hovered around 3¼ percent in recent years, well below pre-crisis levels.
In CESEE, non-CIS is doing better than CIS

GDP growth (percent)

CESEE non-CIS

European CIS

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

Change in GDP (percent)

- Ukraine: Between 2013-15
- Belarus: Between 2013-16
- Russia: Between 2013-16
Exchange rate depreciation increased inflation and reduced real wages

CPI Inflation in European CIS (percent, weighted average)

Average monthly wages (USD)

USD 500 line

RUS

BLR

UKR
2016: Russia is recovering, helped by rising oil prices.
Belarus still in recession

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

Belarus

Demand
Exports
Domestic demand
Imports
Statistical discrepancy
Supply

Russia

Demand
Supply

Ukraine

Demand
Supply
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

GDP growth (percent)

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.
The result was several BOP crises.
Exchange rate has now stabilized

BYR/USD
(Jan-2013=100)

Floating of BYR

Depreciation
How can we reignite growth?

GDP growth in Belarus (percent y/y)
Not by another investment boom; higher productivity needed

Contributions to GDP growth
(2-year moving average, percentage points)
What sets Belarus from other countries is not low employment, but low productivity.
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.

- Green: Lights much brighter in 2013
- Light green: Lights brighter in 2013
- Grey: No change in 2013
- Red: Lights dimmer or missing in 2013
Thank you