Using Good Times to Build Resilience

Presentation at Kastryčnicki Economic Forum

by

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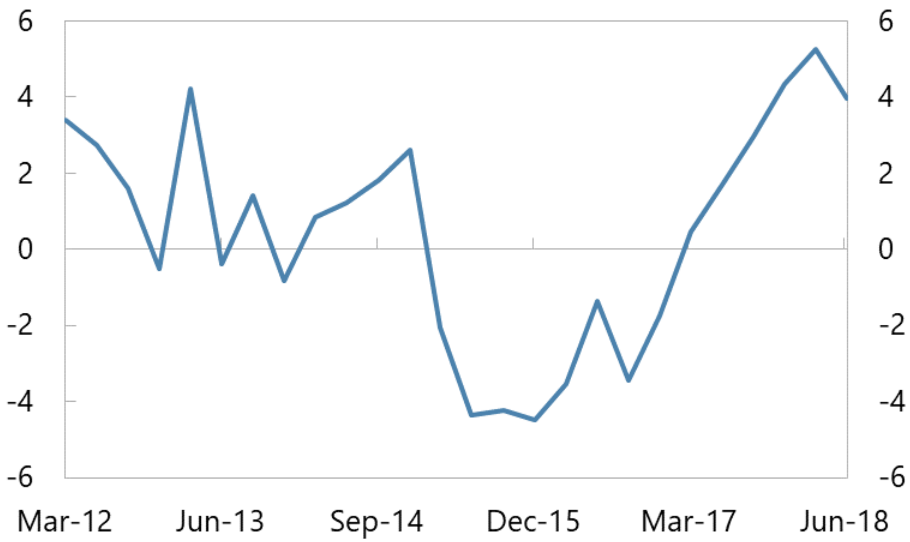
Belarus is in the midst of a healthy recovery

Real GDP Growth

(Year-on-year percentage change)



Source: IMF *World Economic Outlook*.

Headline inflation

(Year-on-year percentage change)

Source: IMF *World Economic Outlook*.

And the authorities deserve a good part of the credit

Two key changes:

- Significant fiscal tightening after last crisis
- Switch to a rules-based monetary policy

Our Key Message

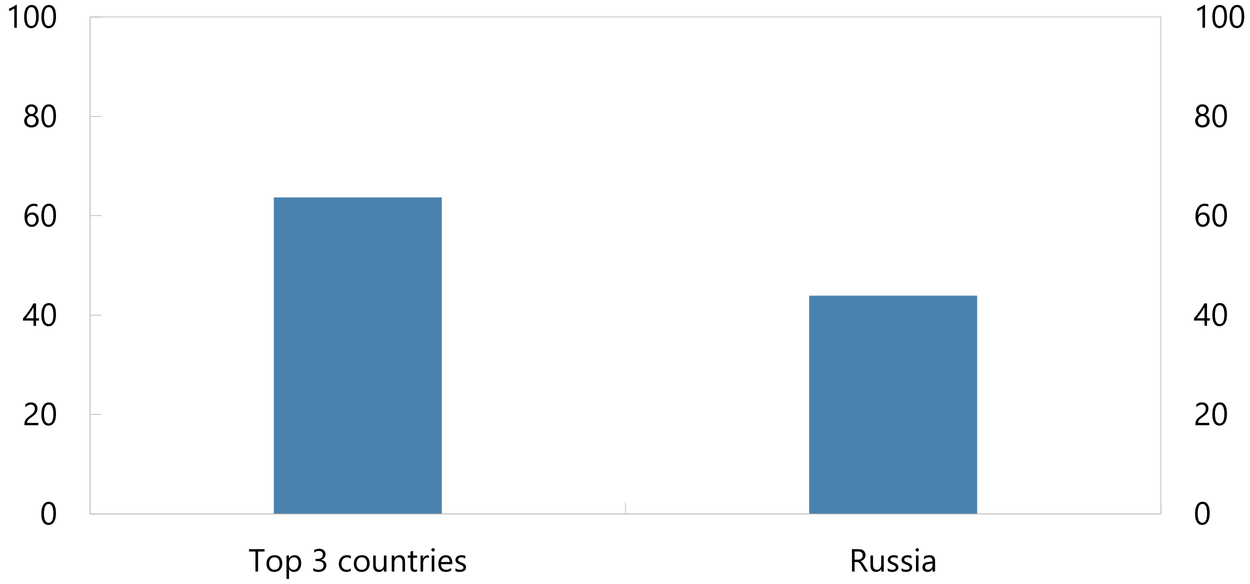
- Strong cyclical recovery and new government with fresh mandate is the ideal backdrop for reforms

- What should the priority be? Continue to focus on reducing vulnerabilities and improving potential growth

I. External Vulnerabilities

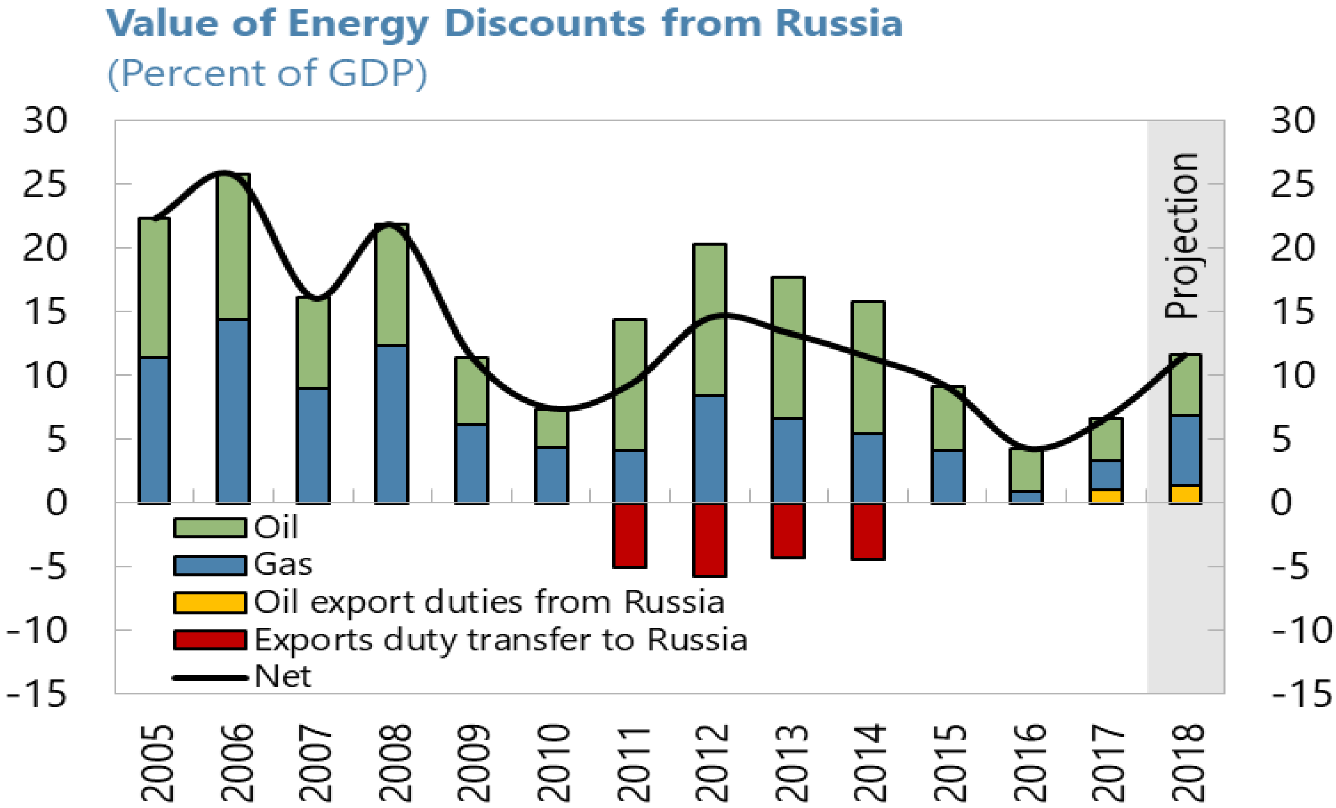
Exports remain concentrated in terms of goods and particularly export markets…

Geographic Concentration of Exports in 2017
(Percent)



Source: National Statistical Offices.

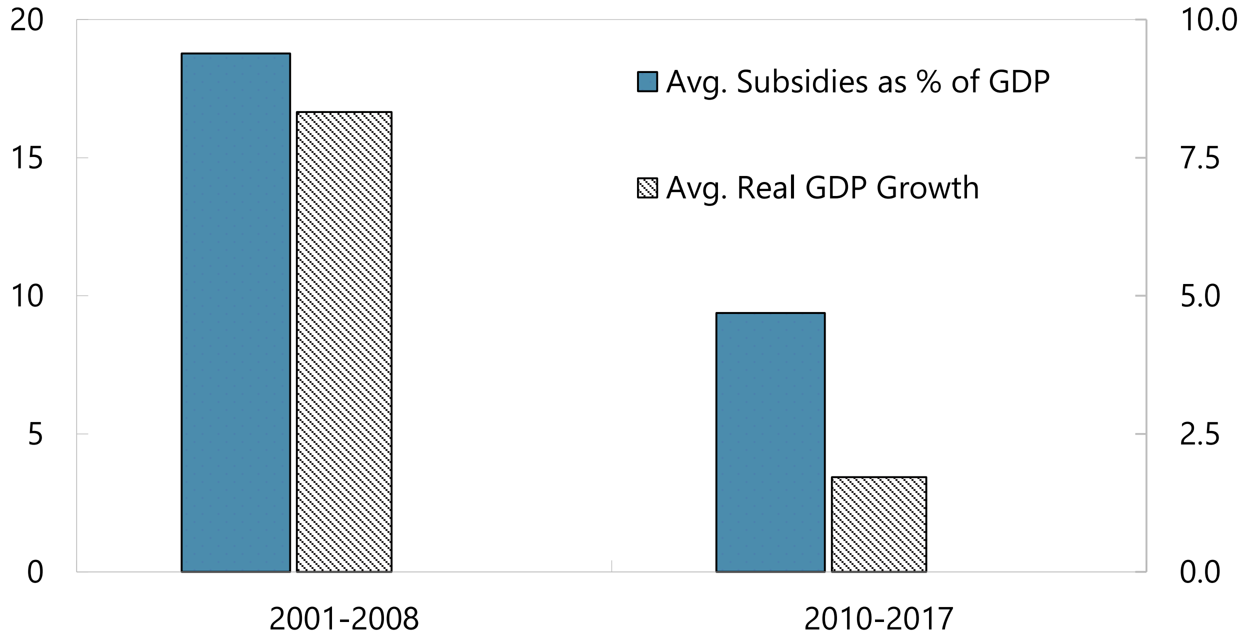
…and Belarus continues to rely heavily on subsidized energy imports from Russia



Sources: Belarusian authorities and IMF staff calculations.

The size of subsidized energy imports explains why Russia's tax maneuver is so important for Belarus

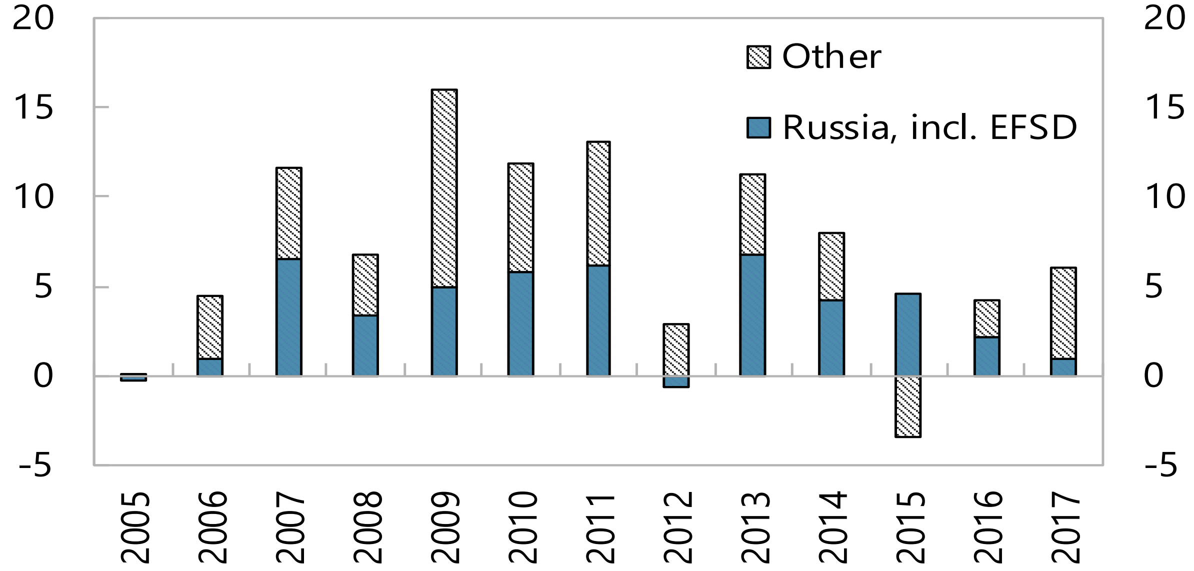
Subsidies from Russia and GDP Growth
(Percent)



Sources: Bearusian Authorities and IMF staff calculations.

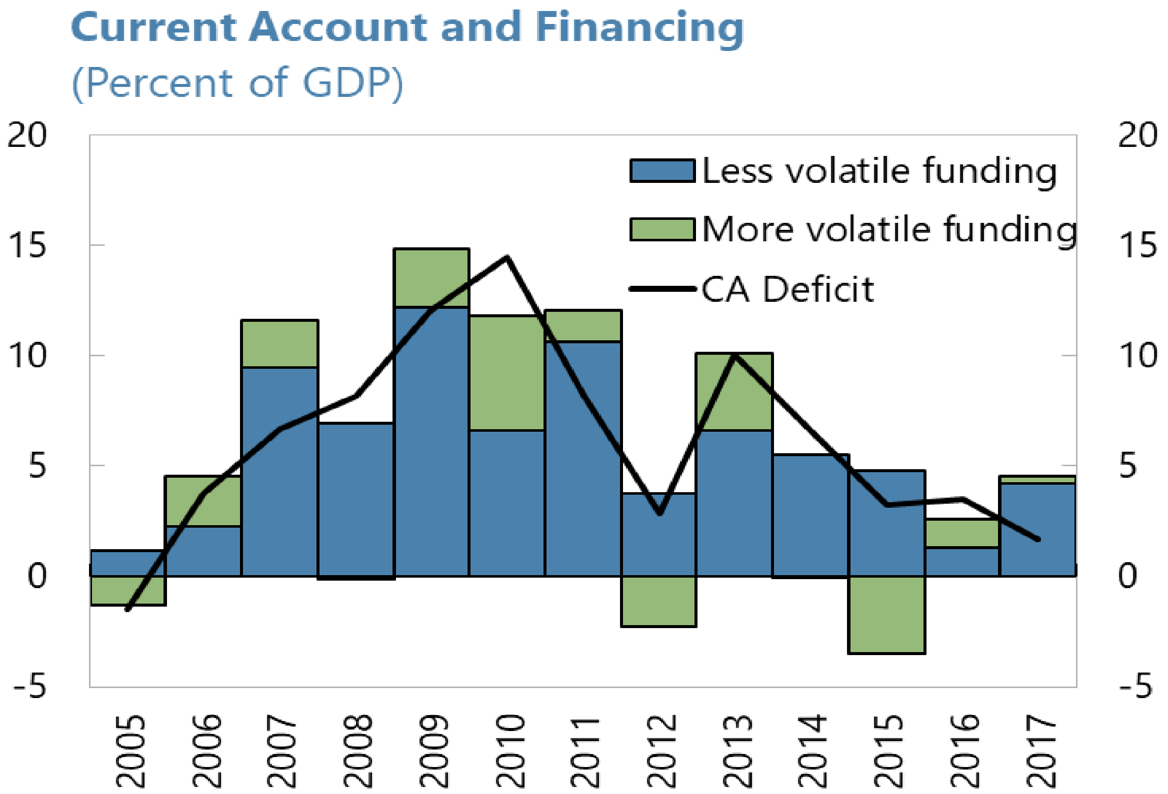
On the financing side, sources of funding are also relatively concentrated

Net lending (-) / Net Borrowing (+) (from Financial Account)
(Percent of GDP)



Sources: Belarusian authorities and IMF staff calculations.

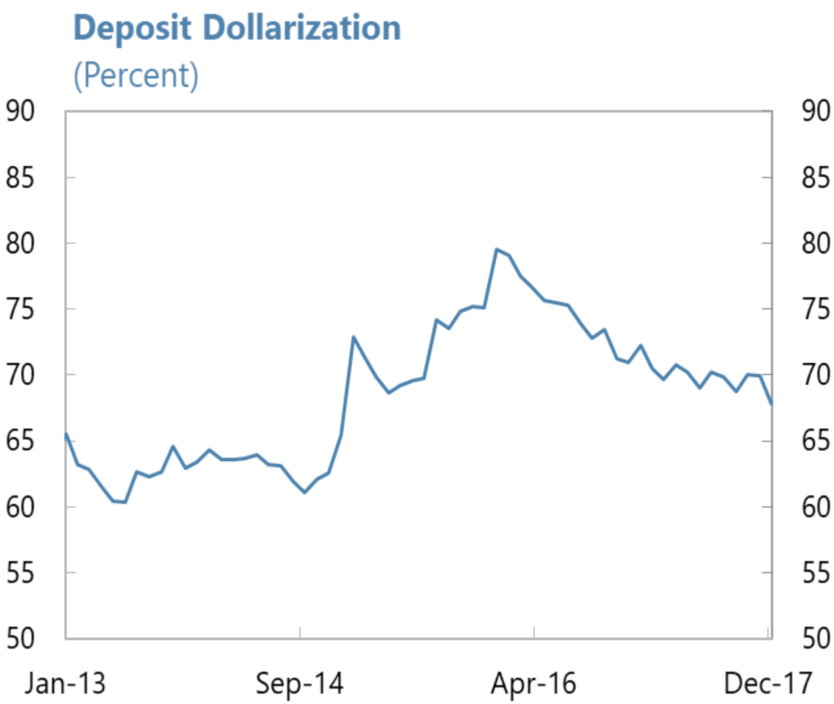
On positive side: Belarus is not very dependent on "hot money"



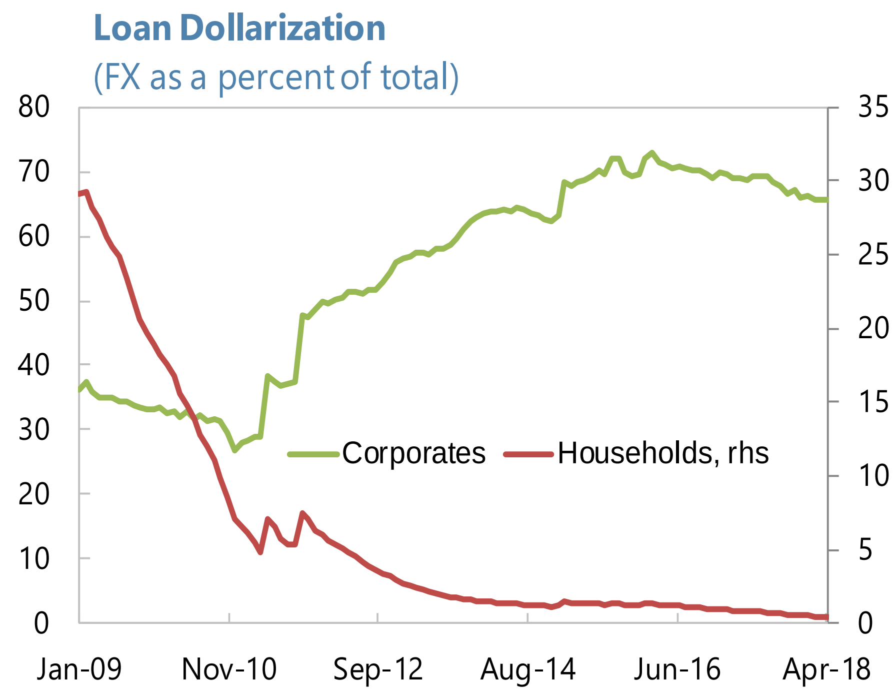
Sources: Belarusian authorities and IMF staff calculations.

II. Financial Sector Vulnerabilities

Better macro and prudential policies are reducing dollarization



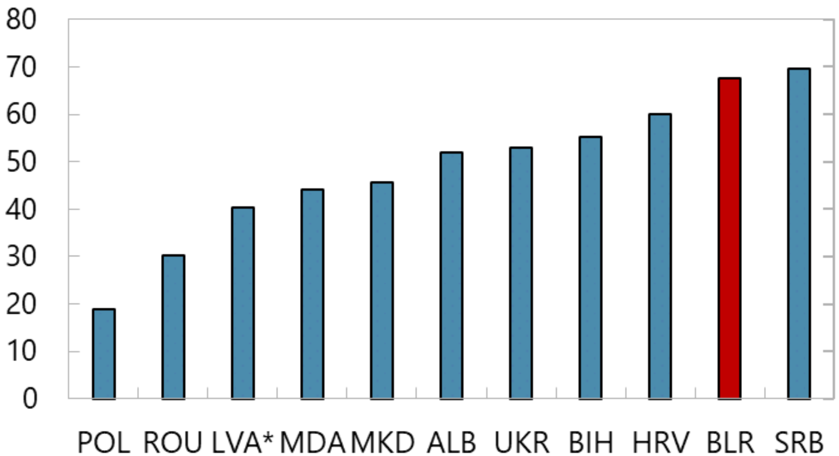
Sources: Belarusian authorities, MFS, and IMF staff calculations.



Sources: Belarusian authorities and IMF staff calculations.

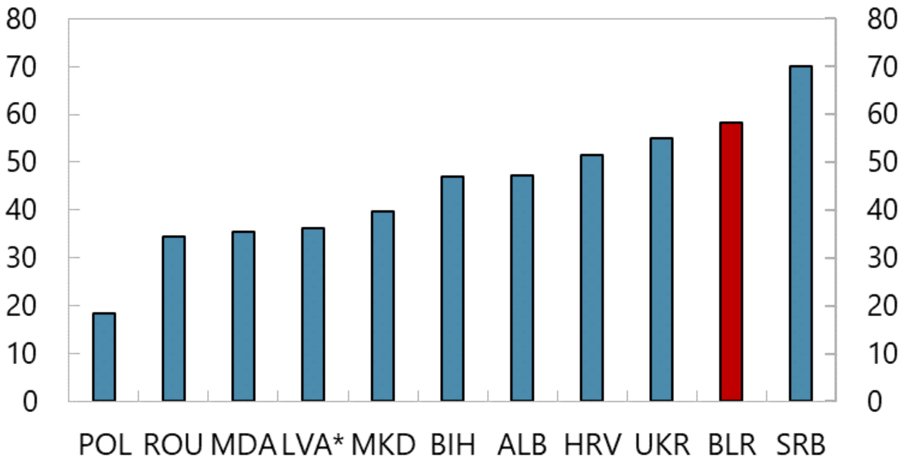
But dollarization is still very high…

Bank Liabilities Dollarization, 2017
(FX as a percent of total)



Sources: IMF *Financial Soundness Indicators, National Bank of Serbia,* and IMF staff calculations.
*Value from 2015.

Bank Asset Dollarization, 2017
(FX as a percent of total)



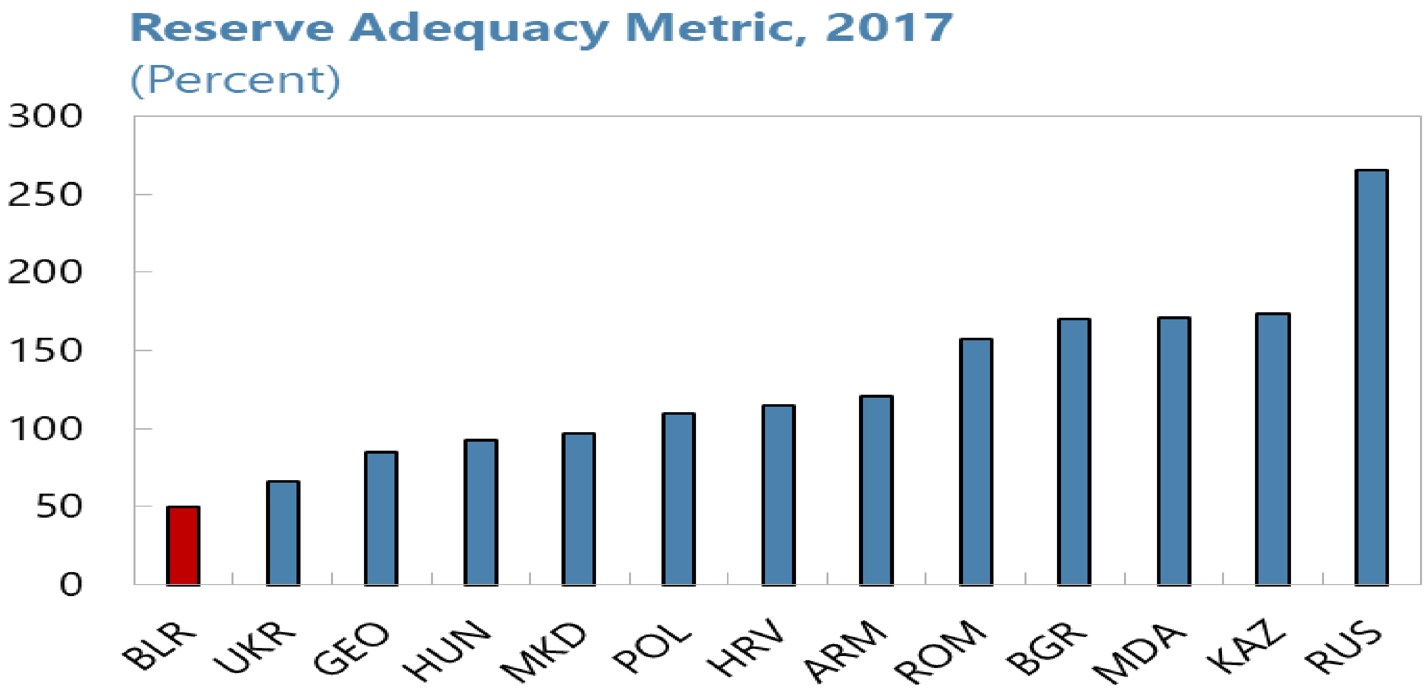
Sources: IMF *Financial Soundness Indicators, National Bank of Serbia,* and IMF staff calculations.
*Value from 2015.

Creating risks on bank balance sheets…

- Prima facie, banks have enough liquid FX assets to cover their short-term FX liabilities

- Credit quality (NPLs) vulnerable to exchange rate pressures

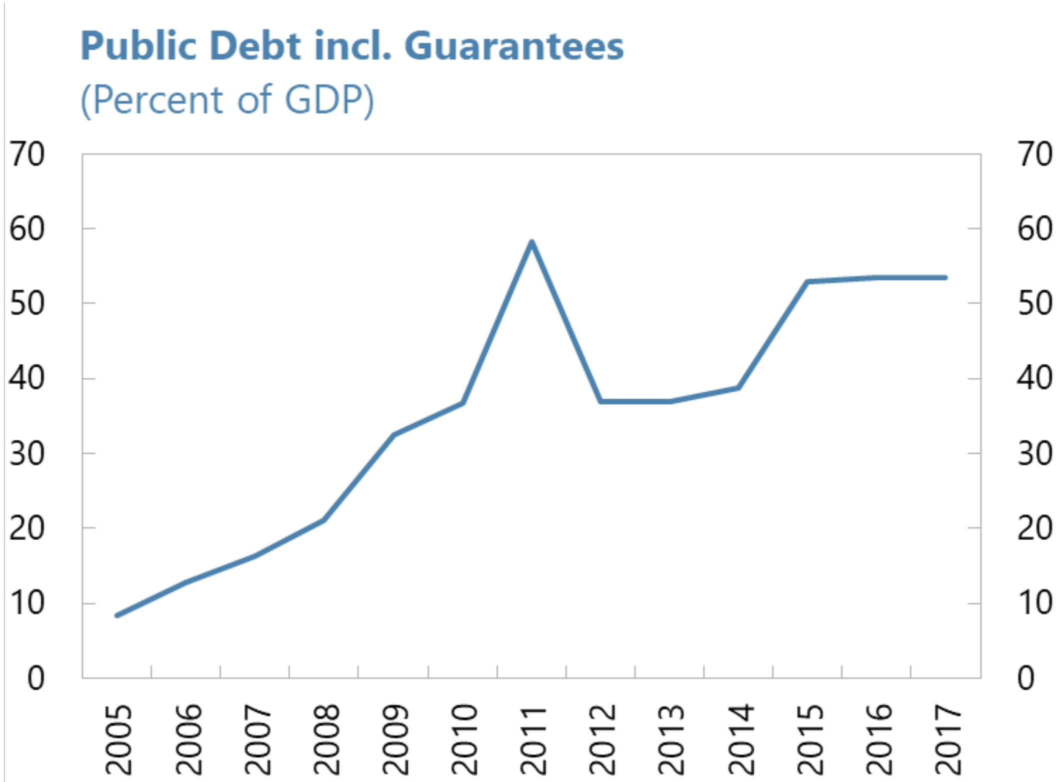
International reserves are increasing, but need to increase further



Source: IMF *Assessing Reserve Adequacy*.

III. Fiscal vulnerabilities

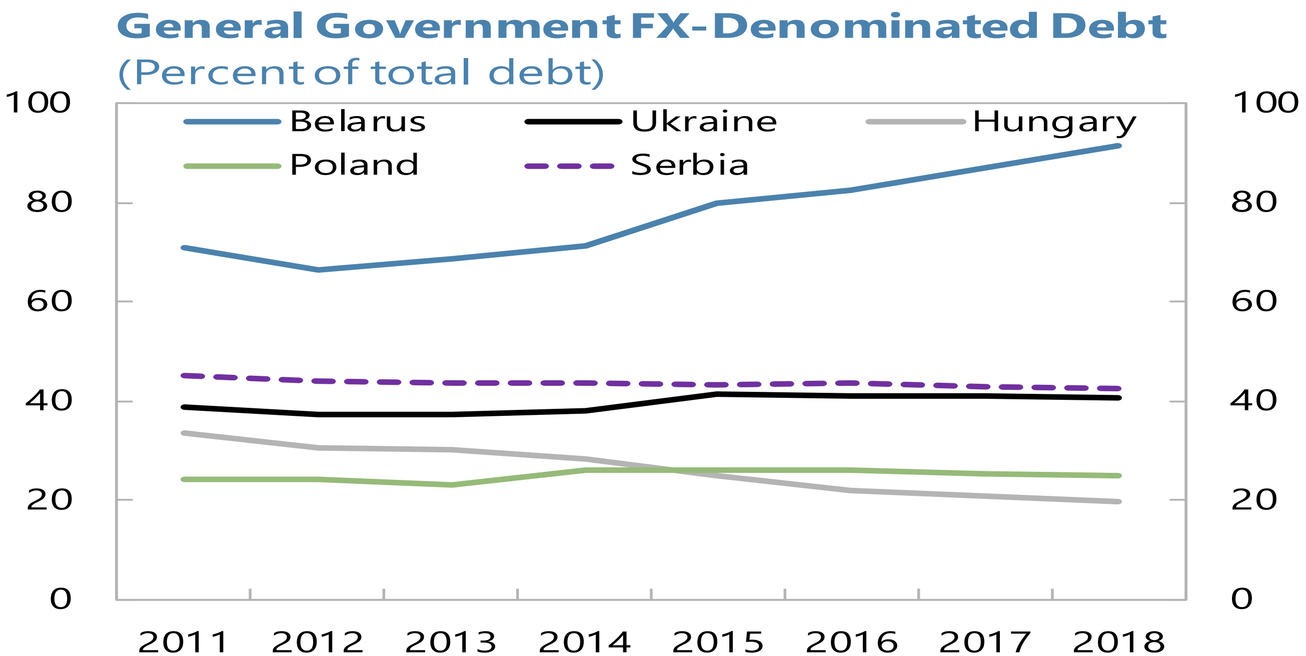
Public debt has increased rapidly and now stabilized at a relatively elevated level



Sources: Belarusian Authorities and IMF staff calculations.

Moreover, the share of FX debt is very high

- FX debt always harder to refinance. Also sharp spikes in debt/GDP when ER depreciates



Source: IMF, *World Economic Outlook*.

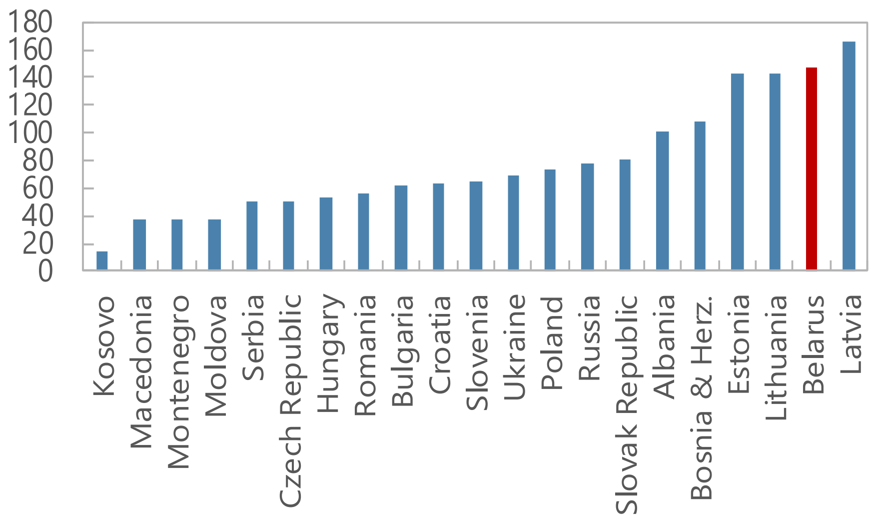
FX debt service is manageable, but funding base remains narrow

Sources: Belarusian authorities and IMF staff calculations.

IV. Growth vulnerabilities

Belarus has gone from being one of the fastest-growing economies in EE to one of the slowest

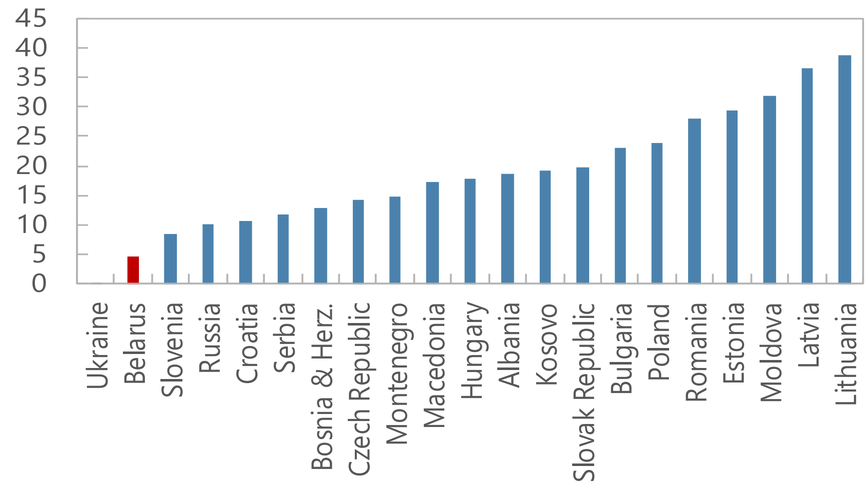
Change of Real GDP per Capita between 1995 and 2007 (Percent)



Source: World Economic Outlook.

Note: Starting year for BIH: 1996; for SRB: 1997; for UVK and MNE: 2000.

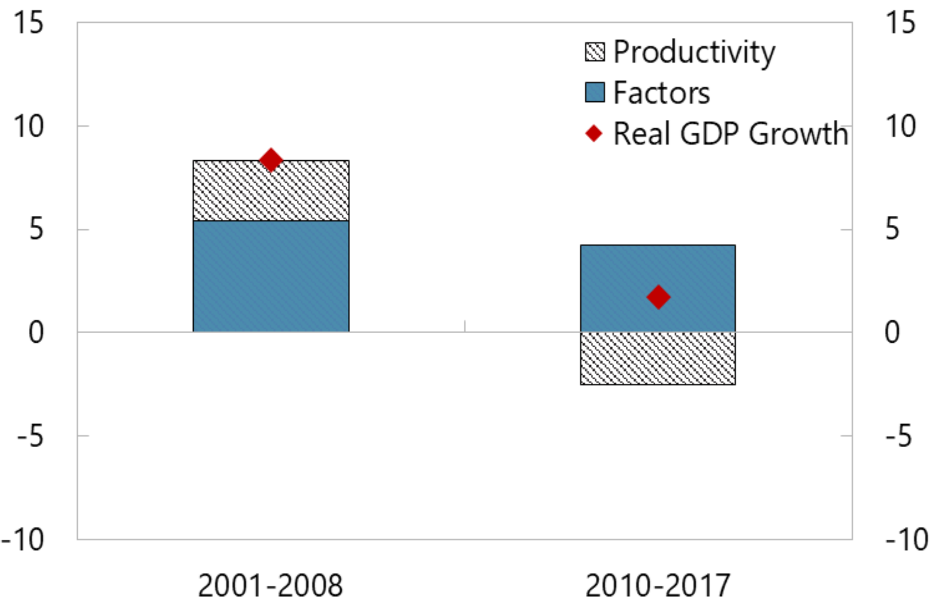
Change of Real GDP per Capita between 2010 and 2017 (Percent)



Source: World Economic Outlook.

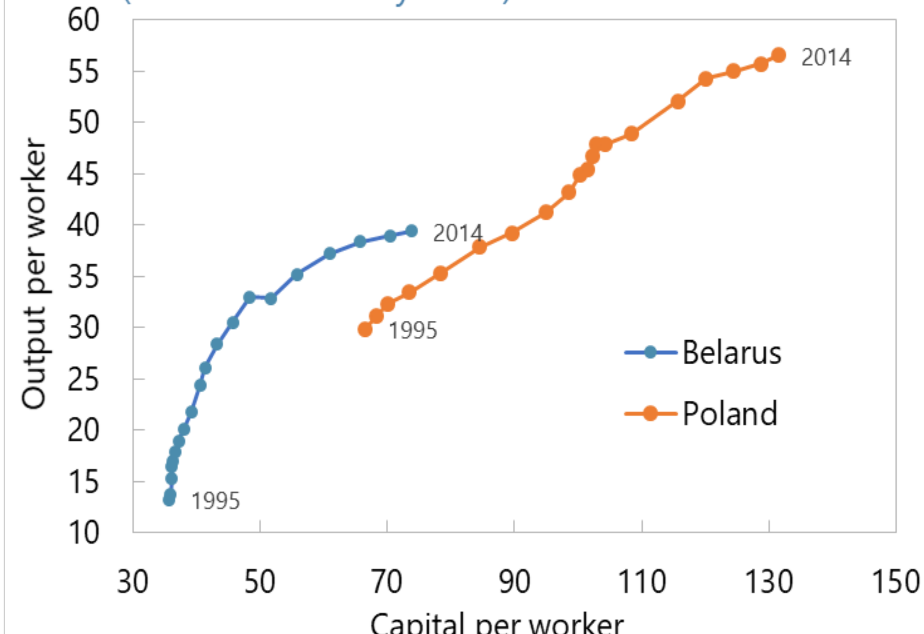
Why? Growing inefficiencies

Contributions to Real GDP Growth
(Percent, Average per year)



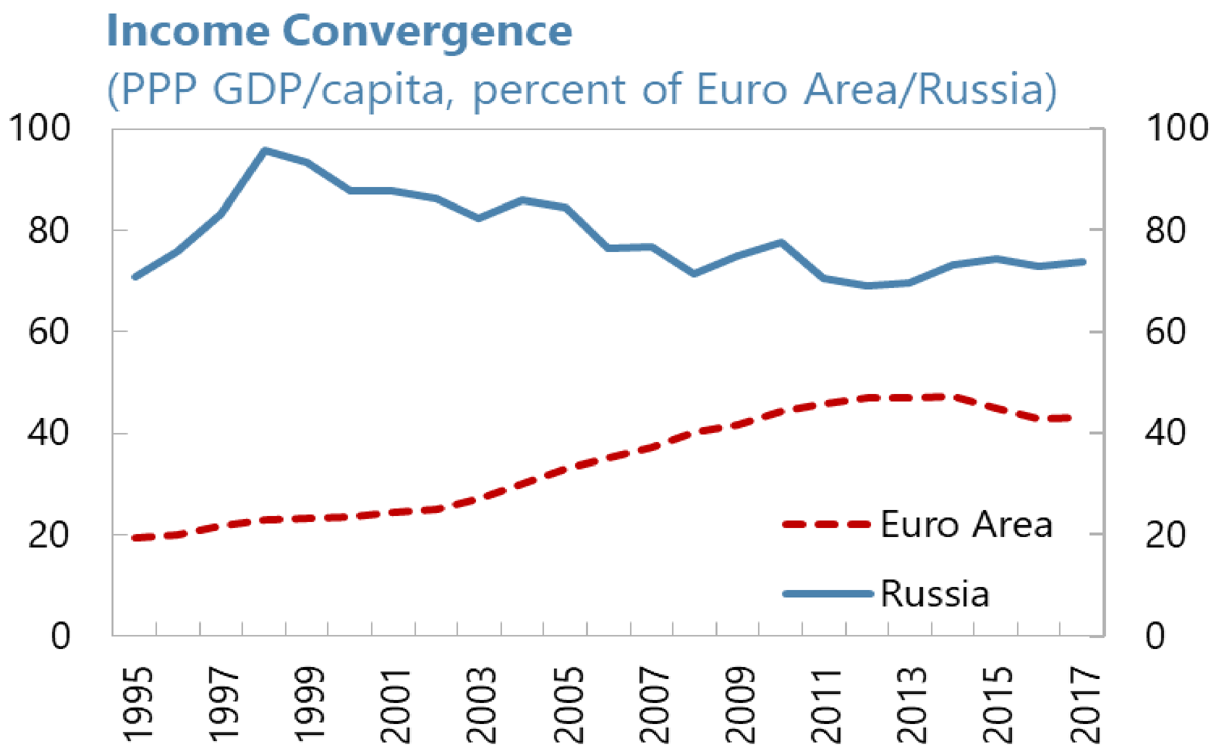
Source: IMF staff estimates and calculations.

Capital and Output per Worker
(National currency units)



Source: Penn World Tables.

This imperils convergence of living standards



Sources: IMF World Economic Outlook (WEO); and World Bank World Development Indicators (WDI).

What should be done?

- Credible macro policies to further increase confidence and reduce dollarization
  - Tight monetary policy and prudential regulations
  - Primary surpluses and phasing out of quasi fiscal activities to reduce public debt

- Further promote private sector activity and accelerate SOE reforms to increase productivity

- Promote trade diversification

Thank You