Using Good Times to Build Resilience

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by

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Belarus is in the midst of a healthy recovery

**Real GDP Growth**
(Year-on-year percentage change)

**Headline inflation**
(Year-on-year percentage change)

Source: IMF *World Economic Outlook.*

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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)

Top 3 countries: 60%
Russia: 40%

Source: National Statistical Offices.
...and Belarus continues to rely heavily on subsidized energy imports from Russia.

Value of Energy Discounts from Russia
(Percent of GDP)

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)**

- **Avg. Subsidies as % of GDP**
- **Avg. Real GDP Growth**

Sources: Belarusian 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”

Current Account and Financing
(Percent of GDP)

Sources: Belarusian authorities and IMF staff calculations.
II. Financial Sector Vulnerabilities
Better macro and prudential policies are reducing dollarization

Deposit Dollarization
(Percent)

Loan Dollarization
(FX as a percent of total)

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)

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

**Reserve Adequacy Metric, 2017**
(Percent)

Source: IMF Assessing Reserve Adequacy.
III. Fiscal vulnerabilities
Public debt has increased rapidly and now stabilized at a relatively elevated level.

**Public Debt incl. Guarantees**
(Percent of GDP)

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.
FX debt service is manageable, but funding base remains narrow

**Public Debt in FX: Debt Service**
(Percent of GDP)

- Domestic FX
- Other external
- Russian incl. EFSD

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.

Source: World Economic Outlook.

Why? Growing inefficiencies

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

- **Productivity**
- **Factors**
- **Real GDP Growth**

Source: IMF staff estimates and calculations.

**Capital and Output per Worker**
(National currency units)

Source: Penn World Tables.
This imperils convergence of living standards

**Income Convergence**
(PPP GDP/capita, percent of Euro Area/Russia)

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