

The World Bank in Belarus Country Snapshot



An overview of the World Bank's work in Belarus

October 2016

BELARUS	2015
Population, million	9.4
GDP, current US\$ billion	56.1
GDP per capita, current US\$	5,933
Poverty rate (\$5/day 2005PPP terms)	0.6
Life Expectancy at birth, years (2014)	72.0

At a Glance

- After sustained high growth for two decades, Belarus subsequently experienced several years of stagnated growth. Macroeconomic vulnerability due to large external imbalances, persistent inflation, and low international reserves, combined with weak demand in trading partners, contribute to a negative growth outlook for 2016 and 2017.
- Comprehensive, mutually consistent, and credible reforms are necessary for higher productivity and sustainable growth in Belarus. Restructuring in the public sector is essential to reduce distorting state interventions and improve firms' performance.
- Over the past three years, the World Bank's active portfolio in Belarus has grown rapidly, from US\$457.5 million to US\$848 million.
- Programs supported by the World Bank have delivered significant results with respect to the environment, energy efficiency, and public services. The focus is on boosting competitiveness and productivity, improving infrastructure, and deepening cooperation in human development in order to help create better jobs in Belarus.

Country Context

After several years of slowdown in growth, increased macroeconomic volatility, and balance-of-payments pressure, the Belarusian economy entered a recession in 2015, the first since 1995. Economic activity continues to stagnate, driven by the contraction in Russia, lower export revenues, and domestic structural problems. GDP growth is expected to pick up to only 1.3% in 2018, driven by some improvement in the external environment and the early effects of domestic competitiveness-enhancement policies.

The Government has worked with the World Bank to produce a Roadmap for Structural Reforms in Belarus (March 2015), which subsequently provided the basis for applications to loan programs with the Eurasian Fund for Stabilization and Development (EFSD) and the International Monetary Fund (IMF).

The Government-approved 2016–2020 Action Plan aims to regain competitiveness, reduce vulnerability to external shocks, and restore economic growth. Planned measures include a further reduction in government directed lending, the establishment of a toxic assets management agency in agriculture, the introduction of contemporary corporate governance practices for state-owned enterprises (SOEs), the creation of an anti-monopoly agency, negotiations for World Trade Organization (WTO) accession, and further increases in utility tariffs to reach full cost recovery.

Major challenges for Belarus include bringing the economy back to a robust and sustainable growth path, improving enterprise performance, especially in the public sector, attracting foreign direct investment (FDI), and ensuring that efficient labor market and social protection systems are in place.

The World Bank and Belarus

The World Bank Group Country Partnership Strategy (CPS) for Belarus for the period 2013–17 guides both World Bank and International Finance Corporation (IFC) support to the country. Belarus' portfolio has grown rapidly since the approval of the CPS, from US\$457.5 million in June 2013 to US\$848 million as of October 1, 2016.

World Bank Group assistance to Belarus is concentrated in three areas:

- (i) increasing the competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the SOE sector, and promoting private and financial sector development and integration into the global economy;
- (ii) improving the quality and efficiency of public infrastructure services and the use of agricultural and forestry resources, and increasing global public goods benefits; and
- (iii) enhancing human development outcomes through better education, health, and social services.

Key Engagement

World Bank-supported programs have delivered important development results with respect to the environment, energy efficiency, and the provision of public services. For example, 3 kilometers (km) of road between Minsk and Bobrujsk have been upgraded from a two- to four-lane motorway, reducing transport costs for road users and lowering automobile accidents. In addition, pupils, teachers, doctors, and patients now receive upgraded and more reliable utility services in 1,000 social sector buildings in all regions of Belarus.

Other expected results are:

- Construction of a modern mechanical waste separation plant is under way in Grodno, as well as a related public awareness campaign that will result in the participation of 80%

WORLD BANK PORTFOLIO

No. of IBRD loans: 8
Lending: \$848 Million
GEF: 1 Grant (\$2.7 Million)

of Grodno residents in a waste source separation program by 2017, up from 16% before the project.

- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by 2018. 243,000 people will benefit from energy efficiency in heat and power generation by 2016.
- 145 megawatts of additional electric capacity based on modern gas turbines and engines is being installed, and the efficiency of heat and power generation at the project sites will be increased by 15–30% by 2017.
- 79,000 Belarusians living in 13 towns will benefit from the efficient use of renewable biomass in heat and electricity generation by 2019. The cost of the heat supply is expected to be reduced on average by 63%.
- 86.7 km of road linking Minsk and Grodno will be upgraded. 4.5 million hectares of forests outside protected areas will be managed as biodiversity friendly by 2016.
- By 2018, Belarus will participate in the Program for International Student Assessment (PISA), the Organisation for Economic Co-operation and Development's (OECD) internationally comparable system of evaluating student learning.

Recent Economic Developments

In the first seven months of 2016, Belarus's economy shrank by 2.7% y-o-y, compared to a 4.1% decline a year earlier. The moderation of Russia's GDP decline and tentative recovery in its industry slowed down the contraction of Belarusian industrial output to 2% y-o-y in contrast to a 7.2% decline a year ago.

Annualized inflation slowed down to 12.3% in July 2016 in contrast to 14.9% a year ago. Subdued inflationary pressures, along with modest depreciation of the national currency vis-à-vis the U.S. dollar (by 7% during January–early August 2016) allowed the National Bank to gradually cut its benchmark rate from 25 to 18% per annum, in a bid to reduce lending and deposit rates.

During January–July 2016, real household income fell by 7% y-o-y. For 2015, one-third of households reported a deterioration in their financial well-being, referring to rising prices against the background of shrinking incomes. The PPP US\$5/day headcount, a low 0.32% of the population in 2014, increased to 0.58% in 2015.

However, a rise in poverty has been contained by further increases in targeted social assistance spending by 18.4% in real terms in the first half of 2016 y-o-y, as the number of applicants increased by almost 30% on top of the 2015 increase of 6.5%.

Economic Outlook

The contraction of GDP in 2016–17 may not be as deep as previously projected. The momentum of the recession seems to have slowed, as evidenced by a moderation of the output decline in industry and a small growth in agriculture and several service sectors.

However, with commodity prices projected to remain low, Belarus is likely to face a further deterioration in its terms of trade, thereby

weakening current account balances and putting pressures on foreign reserves and the exchange rate.

Given the sizable external financing needs and low levels of international reserves (around one month of imports of goods and services over the past several years), a successful refinancing of foreign debt is critical.

The Government continues to seek official financing assistance from the IMF and confirms its plan to issue Eurobonds. Pro-cyclical fiscal tightening is needed to preserve fiscal and reserve buffers and to meet the cost of bank recapitalizations.

The disposable income of households is expected to deteriorate, as the economy remains stagnant and labor shedding continues. Poverty at US\$5/day is projected to increase further to 0.61% in 2016, before returning to 2015 levels by 2018. It is expected that the share of the household budget dedicated to expenditures on food and utilities at the expense of other items will continue to grow, as observed in the first quarter of 2016.

Expenditures on utilities may increase further as part of ongoing district heating reforms, affecting low income households in particular, which already spend relatively more on utilities. Adequate social support for poor households is essential while the utility tariff reform is undertaken.

Project Spotlight

Innovative Transport Solutions

Belarus serves as an important transit corridor for the region. Well-kept roads connect people to public amenities and reduce travel time, vehicle operation costs, and accident risks. The World Bank has helped Belarus to upgrade 53 km of a highway segment between Minsk and Gomel, and over 87 km of the highway linking Minsk and Grodno will be upgraded by 2018.

To maintain safe, efficient road networks and to improve their operation, the authorities need reliable, standardized, and timely data on road conditions and traffic volume. However, collecting such information through conventional methods is costly and time consuming. In the past two years, the Belarusian Road Engineering and Technical Center has teamed with the Bank and developed a smartphone app called “Roadlab” that links drivers to road maintenance authorities and allows for the automatic collection of data on pavement roughness.

Protecting road assets and effectively controlling truck weights are important aspects of sustaining road infrastructure, ensuring safety, and reducing greenhouse gas emissions. As a transit country, Belarus has a large number of local and foreign trucks traveling on its road network. Recently, the Government implemented microwave-based e-tolling and also, with the Bank’s assistance, the installation of a weight-in-motion system (WIM) to link with the existing e-tolling system.

Through the World Bank–financed **Road Upgrading and Modernization Project**, Belarus also implemented a state-of-the-art system to catch overloaded trucks. It includes 12 WIM sites, four fixed heavy vehicle inspection centers, and eight mobile stations with locations strategically distributed throughout the network. WIM control sites process raw data locally and send information on weighed vehicles to the central system unit or to mobile stations and Transport Inspection patrols.

The processed “weighing results” contain all the needed information, including time, direction, lane, weight, vehicle plate number, type, country of origin, speed, dimension, number of axles, air temperature, etc. The Ministry of Transport and Communications in Belarus has already started to use such data to analyze traffic density and traffic patterns by time and location.



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The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at <http://www.worldbank.org/belarus>