

The World Bank in Belarus Country Snapshot



An overview of the World Bank's work in Belarus

April 2018

BELARUS	2017
Population, million	9.491
GDP, current US\$ billion	54.51
GDP per capita, current US\$	5,743
Life Expectancy at birth, years (2016)	74.1

At a Glance

- Improving external conditions, stronger domestic demand, and prudent macroeconomic policies supported a cyclical recovery in 2017 and early 2018. However, elevated public debt levels and continued dependence on external financing make the economy vulnerable to macroeconomic shocks.
- Although the recovery is underway, average annual economic growth rates are unlikely to exceed 3%. Without changes in the state-owned enterprise sector, structural bottlenecks related to the misallocation of capital and low export diversification will continue to constrain growth potential.
- The new Country Partnership Framework for FY18–22 was endorsed on April 3, 2018. In the coming years, the World Bank Group's assistance will focus on: (i) creating opportunities to expand the private sector and promote more efficient public investment; (ii) maintaining the country's human capital edge; and (iii) improving the contribution of infrastructure to climate change management, economic growth, and human development. The lending program until 2022 is estimated at US\$570 million.

Country Context

Belarus has pursued a gradual transition path, characterized by limited structural reforms and a modest expansion of the private sector. Policies have focused on upgrading state-owned enterprises (SOEs) with the help of subsidies and preferential loans through state-owned banks.

Economic growth has been accompanied by an impressive fall in the number of households below the poverty line and an increase in household income among the bottom 40%. The proceeds from that growth have been redistributed through real wage growth, utility subsidies, and the maintenance of employment in SOEs and the public sector.

Unfortunately, the factors that enabled Belarus's past success are no longer in play. The capacity of capital accumulation to drive economic growth is exhausted, the energy subsidies stemming from bilateral agreements with Russia are smaller, and public debt ratios to GDP are growing. It is increasingly difficult to cover the savings-investment gap by foreign borrowing. Henceforth, improved living standards must come from higher productivity.

A sustainable improvement in living standards will therefore require economic, social, and institutional transformation, with an enhanced role for private enterprise, a more efficient SOE sector, and strengthened safety nets. Key pathways include (i) unleashing market forces, (ii) safeguarding social inclusion, and (iii) upgrading institutional frameworks to make the business environment more dynamic and facilitate logistics and trade.

The World Bank and Belarus

The new Country Partnership Framework for FY18–22 was endorsed by the Board of Directors on April 3, 2018. Through the next five years, the World Bank Group's assistance will focus on (i) creating opportunities to expand the private sector and promote more efficient public investment; (ii) maintaining the country's human capital edge; and (iii) improving the contribution of infrastructure to climate change management, economic growth, and human development.

These are supplemented by the cross-cutting theme of promoting greater use of data and access to information in public decision-making.

The World Bank's active portfolio in Belarus is composed of eight projects totaling US\$790 million. The lending program until 2022 is estimated at US\$570 million.

The Government is interested in borrowing further from the Bank for investment project financing, and new projects will include transformational elements.

Key Engagement

World Bank-supported programs have delivered important development results with respect to transport infrastructure, water supply, forestry, energy efficiency, private sector development, public finance management, education, and health care.

Advisory Services and Analytics on the investment climate, SOEs, social protection, and utility tariffs, among other topics, help the Government to outline options for more ambitious future changes.

For example, in 2018, for the first time in its history, Belarus, with the Bank's support, is participating in the reputed Program for International Student Assessment (PISA).

The PISA results will enable the Government to identify weaknesses in Belarusian education and formulate actions for further quality improvements.

WORLD BANK PORTFOLIO

No. of IBRD loans: 8

Lending (IBRD): \$790 million

GEF: 1 Grant (\$2.7 Million)

Other expected results of World Bank activities:

- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by 2019.
- 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 heat supply is expected to be reduced on average by 63% in these towns.
- 154 km of road linking Minsk and Grodno will be upgraded from a two to four-lane motorway by 2019, which will reduce transport costs for users and lower road accidents.
- 4.5 million hectares of forests outside protected areas will be managed as biodiversity-friendly by 2020.
- An annual citizens' budget with information on the execution of the state budget and the medium-term financial program will be introduced by 2021 to improve transparency.
- 100 administrative procedures will be performed online through the E-registry by 2022 to ease conditions for businesses in Belarus.
- 25,000 students will benefit from an improved learning environment in general secondary schools by 2022.
- 150 private micro, small, and medium enterprises will get affordable financing for growth by 2022.
- An e-Health system will soon become operational, and by 2022, the BelMAPO medical simulation center will be established and a modern neonatal department constructed.

Recent Economic Developments

The cyclical expansion continues, supported by improved external conditions and a recovery in industry. In 2017, the economy grew by 2.4% year-on-year (y-o-y), a rebound from the 2.5% contraction a year ago. In January–February 2018, GDP growth accelerated to 5.6% y-o-y, with the main contributions from manufacturing (2.7 percentage points) and domestic trade (0.9 percentage points).

Industrial output expanded by 10.3% y-o-y in the first two months of 2018, up from 6.1% y-o-y in 2017. Modest economic growth in Russia and a gradual increase in commodity prices contributed to a revival of production and exports of machinery and oil products. Merchandise exports recovered (21.7% y-o-y in U.S. dollar terms), helping to bring down the current account deficit to 1.7% of GDP in 2017 (compared to 3.5% in 2016).

On the demand side, real wage increases led to household consumption growth of almost 6% in the third quarter of 2017 (compared to a 6.5% fall in the same period in 2016) and stopped the deterioration in household income. As a result, the share of households below the official poverty threshold remained stable throughout 2017. However, real wage growth outpaced productivity in 2017 (6.2 vs. 3.6%) and in January–February 2018 (13.4 vs. 5%).

Annual average inflation slowed down to the historically low level of 6%, helped by better anchored inflation expectations, a moderation in administrative price adjustments, and imported disinflation. Quasi-fiscal expenditures continue to put pressures on public debt levels (repayment and service amounted to 6.9% of GDP in 2017), which were partially eased by the disbursement of the three tranches of the Eurasian Fund for Stabilisation and Development loan (US\$0.8 billion), a bilateral loan from Russia (US\$0.7 billion), and the issuance of Eurobonds (US\$2 billion).

Economic Outlook

Although recovery is underway, the trending annual economic growth rate is unlikely to exceed 3%. Improved household consumption and investment activity, along with an increase in exports, will help the economy grow. At the same time, persistent domestic structural bottlenecks related to unaddressed legacies of the misallocation of capital and low export diversification will continue to constrain growth potential.

Modest growth rates would ease balance-of-payment pressures, allowing Belarus to maintain a current account deficit of between 2 and 3% over the next three years. A series of promising policy measures, introduced in 2017 to stimulate private sector development and job creation, as well as new economic activities in information and communications technology (ICT), are expected to provide support for an economic recovery in the medium term.

A recovery in household incomes, due to resumed wage growth, is expected to stabilize the poverty rate. Nevertheless, if real wage growth continues to exceed productivity, this could undermine the sustainability of the growth trajectory and further weaken enterprise performance and the financial sector. Risks to fiscal sustainability remain, stemming from existing quasi-fiscal deficits (the recorded budget surplus is entirely spent on public debt repayment) related to the excesses of the expansionary policies of the past.

Looking forward, boosting the productivity of available capital and labor remains a sustainable way to mitigate the risks of prolonged growth and income stagnation, which would lead to widening per capita gaps between Belarus and its neighbors.

Project Spotlight

Ensuring School Efficiency



Students take a chemistry test at a school in Dokshitsy, Belarus.

The traditional approach to school financing in Belarus is based on each school's budget and staffing, on the number of classes, and the size of the school building, no matter how many children attend.

In 2013, the World Bank recommended that each school's budget and staffing should be based on the number of

children so that money will go where it is most needed, which is particularly important when the number of children in different places has changed over time.

Following the Bank's recommendations, Belarus began piloting per capita financing (PCF) for school education in 2015 with the support of a World Bank **Institutional Development Fund (IDF)** grant, which closed in November 2017. This work was led by a team at the National Institute of Education of Belarus, a research organization under the Ministry of Education.

The technical and financial support provided by the World Bank within the grant enabled Belarus authorities to exchange knowledge and learn from other countries' experiences in undertaking similar reforms, understand the key delivery challenges, and design a Belarus-specific PCF formula.

In addition, an interactive web-based tool was created to simplify the transition to the new budgeting methodology for schools and local administration units, enabling them to more easily calculate their budget allocations.

Currently, the PCF mechanism covers 20% of all schools in the country and a small number of preschools. Given the success of the experiment, the Government is planning to scale up this model nationwide by 2019.

The grant laid the groundwork for future education sector reforms with the help of modern approaches to evidence-based policy making through improved data collection and analysis, financing, and quality assessment.



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