

The World Bank in Belarus Country Snapshot



An overview of the World Bank's work in Belarus

October 2018

BELARUS	2017
Population, million	9.492
GDP, current US\$ billion	54.4
GDP per capita, current US\$	5,731
Life Expectancy at birth, years	74.4

At a Glance

- Stronger domestic demand and increased exports helped GDP growth accelerate over two straight quarters to 4.5%, putting the economy on track to expand by an expected 3.8% in 2018. Real wages were on the rise (but outpaced productivity growth), household consumption grew, and inflation slowed to the historically low level of 5%. Growth in 2019 and 2020 is forecast to be around 2.5%.
- The challenge is to find ways to propel the ongoing cyclical recovery into a structural recovery. The acceleration of long-term growth requires more efficiency in resource allocation, a greater ease in doing business, better incentives for investment, and higher confidence in public institutions.
- The new Country Partnership Framework for FY18–22 was endorsed in April 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 currently 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.

Without structural change, growth over the medium term will not be higher than around 2–2.5% per year. A sustainable improvement in living standards will therefore require an 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 in April 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 currently estimated at US\$570 million. The Government and the Bank are discussing how to further expand financing for investment projects. All 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, participated in the reputed Program for International Student Assessment (PISA). The PISA results will enable the Government to identify weaknesses and opportunities in Belarusian education and formulate actions for further quality improvements.

WORLD BANK PORTFOLIO

No. of Projects: 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 a 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 their 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

Stronger domestic demand and increased exports helped GDP growth accelerate over two straight quarters to 4.5%, putting the economy on track to expand by an expected 3.8% in 2018.

Real wages have been on the rise, outpacing productivity growth throughout the second half of 2017 and during 2018, fueling household consumption, which grew by 8.9% year-on-year in the first quarter of 2018.

On the supply side, growth was driven by a rebound in export-oriented manufacturing due to a mild recovery in Russia and more favorable terms of trade.

The current account deficit narrowed to 1.7% of GDP in 2017 from around 3% in 2015–16, as growing exports of goods and services, along with the net sale of foreign cash by households, helped to maintain a stable nominal exchange rate relative to the U.S. dollar until the Russian ruble depreciated.

Between August and mid-September 2018, the Belarusian ruble depreciated against the U.S. dollar by 7.2%. Foreign borrowing by the public sector and oil-related transfers to the budget helped to address the short-term financing needs. Annual average inflation slowed to 6% in 2017 and further to 5% by August 2018.

Economic Outlook

The pace of GDP growth is projected to decelerate to 2–2.5% in 2019–22, as the current recovery is based on cyclical factors. As base effects gradually dissipate, slower output growth in manufacturing, along with lower growth in the non-tradable sectors, will put downward pressure on economic growth.

If prudent fiscal and monetary policies continue to support single-digit inflation and contribute to exchange rate stability, the private sector could gradually expand, supported by recent improvements in the business environment.

The fiscal position is expected to deteriorate in the wake of the “tax maneuver” by Russia—a gradual phase-out of oil duties collected by Belarus. Unless some form of transitional arrangement is reached, a fiscal gap of up to 3.8% of GDP per year, augmented by public debt payments, could require a reduction of expenditures. In 2018, Belarus needs to repay US\$3.7 billion, at least half of which requires refinancing.

The main challenge is therefore to find ways to propel the ongoing cyclical recovery into a structural recovery. The acceleration of long-term growth requires more efficiency in resource allocation, a greater ease in doing business, better incentives for investment, and higher confidence in public institutions. Progress in these areas will address the ongoing adjustment difficulties and prevent long-term stagnation.

Project Spotlight

Preserving Health and the Environment through Improved Waste Management



A massive cleanup operation of persistent organic pollutants (POPs) at the Slonim burial site.

A municipal solid waste landfill right outside the city of Grodno was opened in 2004. In 2016, slightly more than a decade after, the landfill was almost 85% full.

To stop the landfill from “swallowing up” new areas, a new 120,000 ton-per-year modern mechanical waste separation plant was built in Grodno with the support of the **Integrated Solid Waste Management Project**.

The plant enabled the city to start recycling waste instead of burying it all in the landfill, bringing both health and environmental benefits to local residents.

The new waste separation plant enabled the Grodno authorities to pass an ordinance adopting a separate collection system and the removal of waste chutes from high-rise apartment buildings. Instead, thousands of containers for separated and mixed waste were placed in the courtyards.

Once they were provided with the necessary facilities and knowledge through an information campaign, people started to sort garbage at home. Local research indicates that 97% of commercial entities and 60% of the population were participating in the source separation program.

Through the project, the World Bank also helped Belarus to strengthen its capacity to manage hazardous waste, such as persistent organic pollutants (POPs). Specifically, more than 8,000 tons of POP waste were destroyed, disposed of, or stored in an environmentally sound manner, saving 127,360 people from health risks associated with hazardous chemicals.



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