

The World Bank in Belarus

Country Snapshot



An overview of the World Bank's work in Belarus

October 2019

BELARUS	2018
Population, million	9.5
GDP, current US\$ billion	59.7
GDP per capita, current US\$	6,230
Life Expectancy at birth, years (2018)	73.8

At a Glance

- Worsening external conditions and longstanding structural weaknesses have led to a significant slowdown in economic growth in 2019. Output has stagnated in key sectors, marking the end of the 2017–18 recovery.
- Economic growth is projected to be 1.5 percent at best in 2019, but even this modest outlook assumes partial compensation from Russia for its new energy taxation system. With no compensation, growth could slow down even further, while additional foreign borrowing would be required to offset the loss of foreign exchange.
- Over the 2020-2021 period, the poverty headcount is projected to remain flat, on account of still positive, yet significantly weaker economic growth, and smaller increases in real wages, as well as disappointing labor market indicators, in particular higher unemployment rates among those with low levels of education.

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 supporting state-owned enterprises (SOEs) with the help of subsidies and preferential loans through state-owned banks.

Economic growth was accompanied by an impressive fall in the number of households below the poverty line and an increase in household income among the bottom 40 percent. 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 be close to 1 percent per year or even lower. 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 social safety nets.

The World Bank and Belarus

The new Country Partnership Framework for FY18–22 was endorsed by the Board of Directors in April 2018. The World Bank Group’s assistance focuses 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\$843.41 million. Currently, there are two new investment projects under preparation in the areas of energy efficiency and higher education. 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 have focused on the investment climate, SOEs, social protection, and utility tariffs, among other topics. The World Bank is helping the Government to draft a comprehensive Roadmap for Structural Reforms that identifies policy actions to increase the resilience of the domestic economy and strengthen the foundations for economic growth in Belarus.

Among the expected results of World Bank activities:

WORLD BANK PORTFOLIO

No. of Projects: 8

Lending (IBRD): \$843.41 million

GEF: 1 Grant (\$2.7 Million)

- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by summer 2019.
- 79,000 Belarusians living in 13 towns will benefit from the efficient use of renewable biomass in heat and electricity generation by 2020. The cost of the heat supply is expected to be reduced on average by 63 percent in these towns.
- 154 km of road linking Minsk and Grodno will be upgraded from a two- to four-lane motorway by 2020, 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

In the first three quarters of 2019, economic growth slowed down considerably to 1 percent year-on-year from 3.7 percent in January–September 2018. Declining exports put a drag on growth, with merchandise exports down by 3.1 percent in nominal U.S. dollars, in sharp contrast to the 18.3 percent increase during the same period of 2018.

Domestic consumption has been the only driver of economic growth, on the back of a continued rise in real wages of 7.6 percent in January–August 2019, well above the 1.5 percent growth in labor productivity.

On the supply side, output stagnated in most industries. Weaknesses in the corporate sector translated into an almost twofold increase in the volume of bad loans in the banking system from May 1, 2018 to July 1, 2019.

Public debt pressures remain significant, with the ratio of direct and guaranteed debt of the central and local authorities to GDP at 45.7 percent of GDP in 2018, and debt service payments close to 2 percent in 2018 and throughout 2019.

After a short-lived acceleration to 6 percent by mid-2019, annualized inflation fell back to 5.3 percent in September. Because inflation picked up due to non-monetary factors, and broad money growth remained within the established ceiling, the National Bank reduced its policy rate to a historic low of 9.5 percent per annum from the 10 percent set in mid-2018.

Notwithstanding this slowdown in exports, exchange rate flexibility has been retained and additional foreign exchange market liberalization measures implemented. Between September 2018 and September 2019, the Belarusian ruble appreciated by 1.8 percent in nominal terms against the U.S. dollar.

Gross international reserves amounted to US\$8.8 billion at the end of September 2019, covering

more than two and a half months of goods and services imports.

The poverty headcount at the national poverty line, after peaking at 5.9 percent in 2017, started to improve in 2018 to 5.6 percent and further in the second quarter of 2019 to 5.1 percent due to the growth of real household income.

Economic Outlook

The growth outlook in 2019 and in the medium term remains weak, with expected growth slightly above 1 percent per annum. Russia's tax maneuver, which will imply a loss of export duties on oil products and a rise in input prices for domestic oil refineries, could further subdue growth.

The loss of export duties, along with debt repayments and contingent liabilities related to SOEs and banks, will necessitate additional fiscal tightening, with negative repercussions on GDP growth. Higher input prices will negatively affect the price competitiveness of Belarus's oil refineries.

To ignite growth, improvements in the regulatory environment for the private sector, implemented during 2017–18, should be accompanied by a restructuring of SOEs to allocate resources toward more productive uses and reduce fiscal risks.

To cushion the impact of this restructuring on vulnerable groups, the social safety net needs to be enhanced by introducing proper unemployment assistance mechanisms and the improved targeting of means-tested support.

Project Spotlight

Belarus Biomass District Heating Project



A new boiler house in the city of Cherven, which provides heat and hot water not only in residential buildings, but also in the central hospital, school, kindergarten, and local sports center.

Belarus relies heavily on imported gas. The use of domestic biomass to produce heat can help reduce gas imports, improve energy security, and reduce greenhouse gas emissions.

Sixty percent of the population relies on district heating to stay warm in winter. In many towns, however, old boilers and heating networks are inefficient and unreliable.

As a result, gas consumption, costs, and emissions are higher than they should be.

A World Bank–financed project is helping to address this issue in 20 towns by:

- replacing gas and oil boilers with biomass boilers
- providing wood-chipping equipment and biomass fuel storage facilities
- installing building-level heat substations with temperature control
- upgrading district heating networks

The project plans to lower the average cost of the supply of heat by 63 percent in project towns, thus reducing household bills and stimulating local timber businesses.

The project has already contributed to the generation of 5.4 million MWh (megawatt hours) of heat and electricity from renewable biomass and enhanced the living and working conditions of about 83,000 Belarusians.



CONTACTS

Minsk,
+375-17 359-19-50
6 Rumyantseva Street,
220034 Minsk, Belarus.

More about the World Bank in Belarus

Website:
<http://www.worldbank.org/en/country/belarus>

Data:
<http://data.worldbank.org/country/belarus>



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