

The World Bank in Belarus Country Snapshot



An overview of the World Bank's work in Belarus

April 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

- Belarus's economic recovery continued, with real GDP growth reaching 3 percent in 2018, driven by favorable external conditions and stronger domestic demand. As the base effect has dissipated, however, the pace of growth has been slowing down.
- The medium-term forecast of around 2 percent growth would worsen if there is no compensation for the so-called "tax maneuver" in Russia (involving the replacement of oil export duties with a mineral extraction tax). With no compensation, growth would lose two percentage points and public debt would rise by 15 percent of GDP by 2023.
- The World Bank is helping the Belarusian Government to prepare a comprehensive Roadmap for Structural Reforms that identifies policy actions aimed at increasing the resilience of the domestic economy. These structural reforms need to be complemented by a macro-fiscal adjustment.

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 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 about 2 percent 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.

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;

(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.

Currently, there are three new investment projects under preparation in the areas of energy efficiency, higher education, and housing and communal services. 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.

The Bank provides Advisory Services and Analytics on the investment climate, SOEs, social protection, and utility tariffs, among other topics.

It is also 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.

WORLD BANK PORTFOLIO

No. of Projects: 8

Lending (IBRD): \$790 million

GEF: 1 Grant (\$2.7 Million)

Among the expected results are:

- 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 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

The recovery in Belarus continued, with real GDP growth reaching 3 percent in 2018, driven by favorable external conditions and stronger domestic demand.

However, the pace of growth has been slowing since February 2018, reaching 0.8 percent in January–February 2019 year-on-year (y-o-y), as the base effect has dissipated.

The current account deficit remained mostly flat at 0.4 percent in 2018, but vulnerabilities remain. Gross international reserves amounted to US\$7.2 billion at the beginning of 2019, covering only two months of goods and services imports.

The quantitative targeting framework is keeping inflation at historically low levels—it was 5.6 percent y-o-y in December 2019. As the policy rate remained virtually unchanged throughout 2018, real lending rates fell and the credit supply in national currency to corporates and especially to households grew.

Exchange rate flexibility has been retained, while foreign exchange market liberalization continued with the abolishment of surrender requirements.

The poverty headcount at the national poverty line, after peaking at 5.9 percent in 2017, started improving in 2018 to 5.6 percent due to real household income growth.

However, vulnerabilities remain, as the share of the population below a national measure of welfare (the “minimum consumption budget”) increased from 18.9 percent in 2014 to 33.9 percent in 2017.

Economic Outlook

The growth outlook in 2019 and in the medium term remains weak at about 2 percent per annum due to a combination of structural rigidities in the economy and softening terms of trade, as the economies of Belarus’ main trading partners stagnate.

This modest outlook is conditional on partial—at least 50 percent—compensation for the so-called “tax maneuver” in Russia (the replacement of oil export duties with a mineral extraction tax).

According to the International Monetary Fund (IMF), with no compensation, growth would decelerate toward zero or a recession by 2023, public debt would increase by 15 percent of GDP, and additional fiscal consolidation would be required.

On the positive side, recent measures to liberalize private economic activity, as reflected in the country’s improved 2019 Doing Business rankings and growing exports of information and communications technology (ICT) services, could help maintain a trade surplus in services.

However, inefficiencies and the contingent liabilities of SOEs could continue to undermine economic activity and affect financial sector stability.

SOEs have continued to be a persistent source of fiscal risk at a time when total public sector debt remained high at 56.5 percent in 2018 as compared to 44.1 percent in 2011.

Hence, advancing SOE reform will help to reduce vulnerabilities and raise growth potential over the medium to long term.



150 private micro, small, and medium enterprises will get affordable financing for their growth by 2022.

Project Spotlight

Preserving Health and the Environment through Improved Waste Management



The Materials Recovery Facility in the city of Grodno, established with the World Bank support, today employs 192 people. On average, they sort about 230 tons of waste a day.

A municipal solid waste landfill outside the city of Grodno was opened in 2004. In 2016, slightly more than a decade later, the landfill was almost 85 percent 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 has indicated that 97 percent of commercial entities and 60 percent 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.



CONTACTS

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

More about the World Bank in Belarus

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

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

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

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



Follow us on Facebook
World Bank Belarus

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>