

The World Bank in Belarus Country Snapshot



An overview of the World Bank's work in Belarus

April 2020

BELARUS	2019
Population, million	9.4
GDP, current US\$ billion	63.1
GDP per capita, current US\$	6,713
Life Expectancy at birth, years (2018)	74.5

At a Glance

- Weaker exports led to a decline in economic growth in 2019, with the authorities deploying fiscal stimulus measures to prevent a deeper slowdown.
- The economy is expected to contract in 2020 as a result of the COVID-19 global economic shock, Russia's "tax maneuver," and a contraction of crude oil imports, all of which are compounding long-standing economic vulnerabilities.
- Belarus needs to ensure an orderly adjustment from fiscal and current account pressures amid depleting policy buffers, growing debt-servicing needs, and an unfavorable global financing environment. Robust safety nets will be essential to preventing poverty and the expansion of vulnerability.

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 during 2003–13 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 has been exhausted, the energy subsidies stemming from bilateral agreements with Russia are lower, 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.

The economy is expected to contract by over 2 percent in 2020 as the COVID-19 global economic slowdown leads to a lower demand for Belarus's exports of commodities and investment goods to the European Union (EU), Russia, and other countries. The contraction will be compounded by Russia's "tax maneuver," which will require fiscal tightening in response to a growing revenue shortfall.

The economic contraction is likely to have a negative effect on household welfare, as the Government's ability to support vulnerable households will be constrained by the limited fiscal space. In the near term, the main challenge is to ensure an orderly adjustment to the deterioration in Belarus's external environment. Given the limited fiscal space and increasing financing needs, Belarus should urgently rationalize public expenditures to ensure that scarce public resources are spent in the right areas.

More efficient spending will be critical to delivering savings that can be used to protect growth-enhancing investment, health, and education expenditures, ensure the delivery of public services, and cushion the downturn's impact on the employment and incomes of low-income households through strengthened social protection spending.

These near-term policy measures need to be combined with medium-term structural reform. 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 nine projects totaling US\$942.71 million. Currently, there are two new investment projects under preparation in the areas of higher education and the energy efficiency of public buildings. 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:

- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by summer 2019.

WORLD BANK PORTFOLIO

No. of Projects: 9

Lending (IBRD): \$942.71 million

GEF: 2 Grants (\$6.39 Million)

- 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

Real GDP growth slowed to 1.2 percent in 2019 from 3 percent in 2018, reflecting a broad-based slowdown in manufacturing due to weak Russian demand as well as an oil contamination incident in mid-2019 that contributed to a contraction in petrochemicals output and exports. A fiscal stimulus shored up household consumption, which rose 4 percent during the first three quarters of 2019 year-on-year (y-o-y), though this was still less than the 7.4 percent increase in 2018. A dynamic information and communications technology (ICT) sector contributed 0.5 percentage points to overall growth, roughly the same as the agriculture, industry, construction, and transport sectors combined.

In 2019, in a so-called “tax maneuver,” Russia continued to phase out price advantages on its oil exports to Belarus (a key input for export-oriented Belarusian oil refineries). Furthermore, disagreements with Russia on oil supply terms contributed to a halt in oil deliveries in the first quarter of 2020. With oil imports falling to just 0.5 million tons—1.5 million tons less than typical monthly imports—industrial output and the estimated monthly GDP contracted by 5.8 percent and 1.9 percent y-o-y, respectively, in January.

Real expenditures rose 3 percent in the first three quarters of 2019, led by higher public sector wages, subsidies and transfers, and capital expenditures. Revenues fell 0.2 percent in real terms due to slower GDP growth and reduced foreign trade revenue from the shift in Russia’s energy tax regime.

The current account moved into a deficit of 1.8 percent of GDP in 2019 from zero in 2018, as the decline in merchandise exports was only partially offset by higher service exports and secondary incomes .

With annualized inflation slowing to 4.7 percent in January 2020 from 4.4 percent in December 2019 and 5.8 percent in January 2019, and broad money growth remaining within the ceiling of 12 percent, the central bank reduced its policy rate to reach a historic low of 8.75 percent in February 2020 from 9 percent in November 2019 and 10 percent in mid-2018.

Despite weaker growth, household income continued to grow in 2019 on account of higher real wages and pensions, particularly at the bottom of the wage distribution. Real disposable income increased 6.3

percent in January–November 2019 relative to the same period in 2018. The national poverty rate, after rising between 2014 and 2017, fell by 0.3 percentage points in 2018 and continued its downward trend in 2019 to reach 4.8 percent in the fourth quarter of the year. Poverty, based on the purchasing power parity of US\$5.5/day, fell to 0.44 percent in 2018 and remained stable in 2019.

Economic Outlook

The economy is expected to contract by at least 4 percent in 2020 as the COVID-19 global economic slowdown leads to a lower demand for Belarus’s exports of commodities and investment goods to the EU, Russia, and other countries. The contraction will be compounded by Russia’s “tax maneuver,” which will require fiscal tightening in response to a growing revenue shortfall.

Even if oil supplies from Russia resume, lower oil prices will sharply reduce revenues from foreign trade, with customs duties on the oil trade expected to be negligible in 2020 (down from 1.1 percent of GDP in 2019) and Belarus projected to lose around 1.2 percent of GDP in “re-clearance” receipts. Export and tax revenues could fall even further if there are delays in signing long-term potash fertilizer contracts. A heavy debt redemption profile—related to loans from Russia for the construction of a nuclear power plant—will put further pressure on public finances.

In the near term, the main challenge is to ensure an orderly adjustment to the deterioration in Belarus’s external environment. Given the limited fiscal space and increasing financing needs, Belarus must urgently rationalize public expenditures to ensure that scarce public resources are spent in the right areas.

More efficient spending will be critical to delivering savings that can be used to protect vulnerable households through more robust and better targeted social assistance measures, maintain health and education expenditures, and ensure the delivery of public services.

Belarus can also seek financing from international development partners. This will require combining near-term policy measures with medium-term structural reform.

Project Spotlight

Belarus Education Modernization Project



A school in the city of Voronovo (Grodno oblast), renovated with support from the World Bank project. Now, more than 1,000 students have access to modern physics and chemistry classrooms, computers, and a library.

Like many countries in the region, Belarus has faced a steady decline in its school-age population over the past two decades.

In response, the Government has undertaken an ambitious effort to improve access to a quality learning environment and to consolidate the school network, adjusting the infrastructure in line with demographic trends.

A national program objective is to improve the quality of secondary education and to optimize the network of general secondary education institutions.

A World Bank–financed project is helping by:

- Modernizing schools in rural areas and small towns through the rehabilitation of school facilities and the provision of the necessary laboratory equipment for physics, chemistry, biology, and information technology classes (64 schools have already been modernized and 236 schools are next in line)
- Piloting and disseminating modern approaches to school learning environments
- Modernizing management of the education sector and bringing it in line with international best practices by introducing an Integrated Education Management System and conducting training for school principals and educational professionals
- Increasing the efficiency of the system of evaluating student learning by ramping up national and international assessments, including the Program for International Student Assessment (PISA). The availability of the PISA 2018 results is now allowing Belarus to adequately assess the quality of its education program relative to other countries and to identify any problems with regard to equal access to quality education

In total, the project will improve learning conditions for 65,000 students from all over Belarus.



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