BELARUS

Table 1	2018
Population, million	9.4
GDP, current US$ billion	52.2
GDP per capita, current US$	5549
Upper middle-income poverty rate ($5.5)[a]	0.8
Gini index[a]	25.4
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	73.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

The recovery continued in 2018, driven by favorable external conditions and domestic demand. The inflation targeting framework kept consumer price inflation low, while lower real interest rates stimulated credit growth, especially to households. Despite accelerated income growth, low income households remain vulnerable. Concerns about external sustainability and growth come from uncertainty surrounding the terms of economic cooperation with Russia. The growth outlook is undermined by structural rigidities in the economy, the projected slowdown in traditional markets, and tightening global liquidity.

Recent developments

The recovery of the Belarusian economy continues, with real GDP growth reaching 3 percent in 2018. Merchandise exports (in dollar terms) grew by almost 16 percent y/y on the back of higher prices for oil products and potash fertilizers and selected agricultural commodities. Domestic demand was driven by still robust growth in public investments and household consumption, supported by growth of real wages (11.6 percent y/y, above productivity growth of 3.4 percent) and household incomes (8.6 percent y/y). On the supply side, the recovery remains broad based—all main sectors, apart from agriculture, recorded output growth. At the same time, the pace of GDP growth has been decelerating from February 2018 onwards, reaching just 0.4 percent y/y in January 2019, as the base effect has dissipated.

The current account deficit has remained mostly flat at 0.4 percent of GDP in January-November 2018, but vulnerabilities remain significant. Exchange rate flexibility has been retained, while the foreign exchange market has been further liberalized by abolishing surrender requirements. In the second half of 2018, adjustment of the Russian ruble led to a slight weakening of the Belarusian currency vis-à-vis US dollar, resulting in 8.7 percent annual nominal depreciation of the BYN. Gross international reserves amounted to US$7.2 billion at the beginning of 2019, covering approximately two months of goods and services imports.

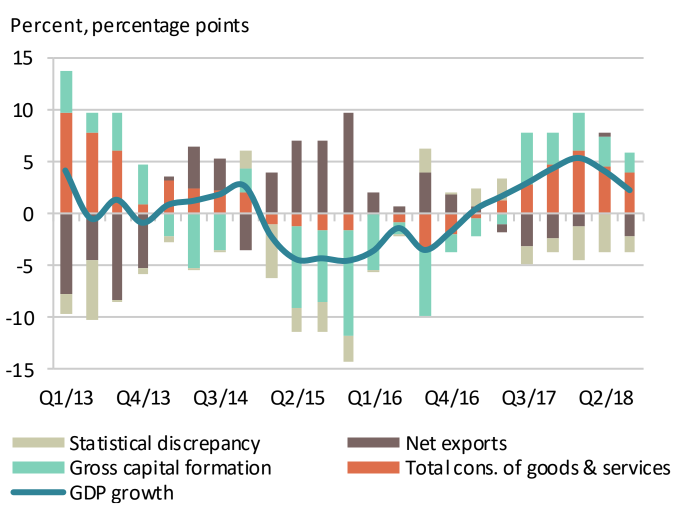
Quantitative targeting framework is keeping inflation at historically low levels—5.6 percent y/y in December 2018, against the target not higher than 6 percent. As the policy rate remained virtually unchanged throughout 2018, real interest rates fell, stimulating nominal credit growth—mainly in national currency—to corporates (by 7.6 percent) and especially to households (by 28.4 percent).

The national poverty rate, having peaked at 5.9 percent in 2017, started improving in 2018 (5.6 percent in Q3, compared to 5.9 percent in Q3 of 2017) on account of higher real wages and incomes, lower inflation, and continued economic recovery. However, significant vulnerabilities remain: the share of population below the Minimum Consumption Budget—a national measure of welfare—increased from 18.9 percent in 2014 to 33.9 percent in 2017. The poverty headcount at PPP US$5.5/day remains at below 1 percent.

Outlook

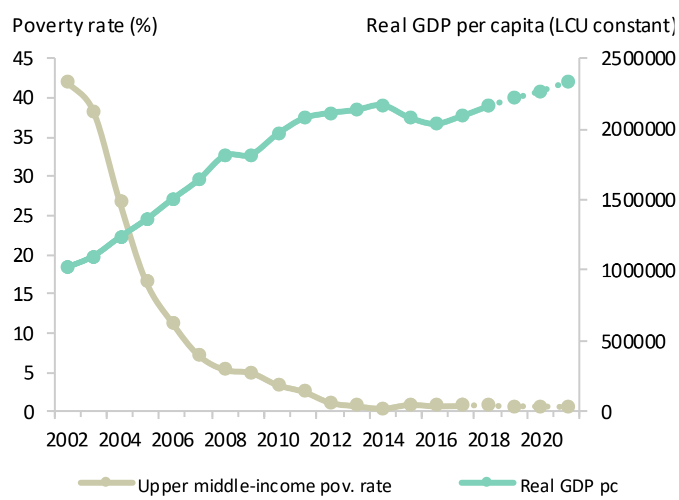
The growth outlook in 2019 and in the medium-term remains weak at about 2 percent p.a. due to a combination of structural rigidities in the economy and softening terms of trade, as the economies of main trading partners are stagnating. This modest outlook is conditional on partial – at least one half of the full amount – compensation for the so-called ‘tax maneuver’ in Russia, or abolishing export duty on oil and raising mineral extraction tax. With no compensation,

FIGURE 1 Belarus / Real GDP growth and contributions to real GDP growth



Sources: World Bank staff calculations based on Belstat data.

FIGURE 2 Belarus / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

growth would decelerate to below 2 percent, the current account deficit could increase, and additional fiscal consolidation would be required. Under the worst-case scenario of no compensation from Russia, the economy could slide into recession as the petrochemical sector would adjust its output, along with the deterioration of fiscal accounts and the external position.

Growth prospects are also undermined by structural rigidities and major pending reforms. On the positive side, recent measures to liberalize economic activity, reflected in the improved 2019 'Doing Business' rakings and growing exports of ICT services, should contribute to a trade surplus. However, inefficiency and contingent liabilities in State Owned Enterprises continue to undermine economic activity. SOEs continue to crowd out more productive use of capital and remain a key source of fiscal risks—total public sector debt remains high at 56.5 percent in 2018, as compared to 44.1 percent in 2011.

In 2019, household utility tariffs—except for heating—are expected to achieve full cost recovery. This may lead to inflationary pressures. Nevertheless, if current prudent monetary policy is continued, the 6-percent inflation target goal remains reachable. Low inflation is also instrumental to strengthen confidence in national currency and reducing high dollarization.

Over the 2019-2020 period, PPP US$5.5/day poverty headcount is projected to continue falling slowly from the peak of 2015-16, on account of positive, yet somewhat weaker economic growth, and small increases in real wages. Yet, continued increases in utility tariffs highlight a need to ensure affordability of basic services for low-income households.

Risks and challenges

Rapidly rising public debt, largely denominated in foreign currency, high dollarization, and the uncertainty about negative spillovers from Russia's new energy taxation pose significant risks to macroeconomic stability. The room for policy flexibility is limited, as monetary policy efficiency is compromised by high dollarization and weak monetary transmission mechanism, while exchange rate adjustment remains risky due to high share of foreign currency-denominated public debt. Fiscal policy, as a remaining policy tool, has a limited scope due to high levels of contingent liabilities and quasi-fiscal operations related to SOEs and state-owned commercial banks, and high tax expenditures against weak net borrowing capacity.

The main challenge is to take advantage of the recovery in growth to start implementing far-reaching economic changes, including restructuring the state-owned enterprise sector. SOEs produce about a half of Belarus's GDP, and their productivity and financial performance directly shapes Belarus's growth prospects. According to National Bank's estimates, liabilities with risks of repayment delays held by the largest SOEs account for 15 percent of GDP in 2018, a 1 percentage point higher than in 2017. Hence, advancing in this crucial area of reform will help to reduce vulnerabilities and raise growth potential over the medium to the long-run. An actionable plan to guide SOE restructuring should consider risks-based assessment of SOEs' viability and fiscal risks.

To cushion the impact of restructuring on vulnerable groups, social safety net needs to be enhanced by introducing unemployment assistance mechanisms and inclusively improving the design of the Household Utility Subsidy (HUS) program.

TABLE 2 Belarus / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	-2.5	2.5	3.0	2.2	2.4	2.1
Private Consumption	-3.2	4.7	4.8	2.5	2.8	1.9
Government Consumption	-6.9	1.7	-0.9	0.6	0.4	0.5
Gross Fixed Capital Investment	-14.5	9.4	1.2	1.8	4.1	2.9
Exports, Goods and Services	2.6	7.5	2.5	2.8	2.7	3.0
Imports, Goods and Services	-1.4	11.1	3.9	3.1	3.9	3.2
Real GDP growth, at constant factor prices	-2.5	2.5	3.0	2.2	2.4	2.1
Agriculture	3.9	4.4	-3.4	4.6	3.5	3.8
Industry	-4.7	3.6	6.1	4.2	5.2	5.8
Services	-1.7	0.8	1.4	-0.8	-1.3	-3.2
Inflation (Consumer Price Index)	11.8	6.0	5.6	5.8	5.0	5.0
Current Account Balance (% of GDP)	-3.4	-1.7	-1.0	-1.6	-2.6	-2.4
Net Foreign Direct Investment (% of GDP)	2.7	2.6	2.6	2.5	2.3	2.2
Fiscal Balance (% of GDP)	1.5	3.1	3.4	1.4	1.1	1.0
Debt (% of GDP)	44.4	50.3	52.1	55.2	58.3	54.2
Primary Balance (% of GDP)	3.1	5.6	6.2	3.5	3.9	3.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.7	0.8	0.7	0.7	0.7	0.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-HHS. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.