

BELARUS

Key conditions and challenges

Table 1 **2020**

Population, million	9.4
GDP, current US\$ billion	60.2
GDP per capita, current US\$	6371.4
Upper middle-income poverty rate (\$5.5) ^a	0.2
Lower middle-income poverty rate (\$3.2)	25.3
School enrollment, primary (% gross) ^b	100.5
Life expectancy at birth, years ^b	74.2

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2019), 2011 PPPs.

(b) Most recent WDI value (2018).

In 2020, the absence of mobility restrictions and credit relief for state-owned enterprises prevented a deeper recession, while external financing needs and domestic foreign exchange pressures were met through a drawdown of reserves and debt financing. Amidst the ongoing political crisis and limited space for fiscal or monetary expansion, the outlook, in the absence of reforms, is for a deepening of the recession in 2021, and a slow recovery thereafter. Poverty rates are expected to stagnate at a low level.

Even before COVID-19, a lack of progress on reforms had already contributed to a sharp slowdown, with annual GDP growth averaging 0.5 percent since 2011. The COVID-19 outbreak and political turbulence following elections in August 2020 have further depressed household and investor sentiment and contributed to household deposit outflows and an 18-percent currency depreciation against the US\$ during 2020. At the same time, policy support may lead to further erosion of already depleted fiscal and FX buffers, undermining macro-financial stability. The possible gradual relocation of the export-oriented ICT sector could affect services exports. Economic sanctions, if further imposed, are likely to increase the costs of doing business for selected exporters. Restoring economic confidence promptly is crucial, given the limited policy buffers and large downside risks. Belarus's incomplete transition to a market economy has saddled it with a low-productivity and highly-leveraged SOE sector, a weak and dollarized banking sector, and heavy dependence on commodity exports. Per National Bank estimates, loans taken by large SOEs, sometimes with questionable ability to be serviced on time, averaged 14 percent of GDP over the past several years. Given the share of FX debt on SOE balance sheets, currency depreciation and economic weakness have further

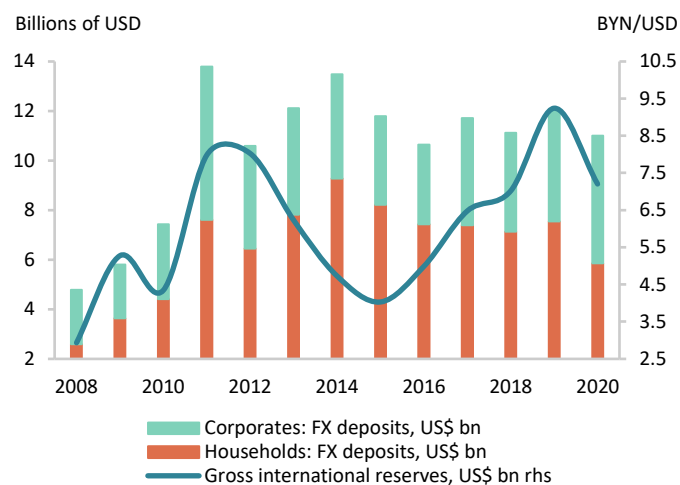
weakened bank asset quality over the past year.

Over the medium-term, the challenge is to move towards an economy less dependent on oil processing that can be competitive as the implicit oil import price subsidies are withdrawn with the implementation of Russia's "tax maneuver". Anchoring fiscal sustainability in the medium term will require SOE restructuring, and rationalization of the public sector wage bill and tax expenditures. A robust social safety net and expanded unemployment support will be critical for maintaining basic incomes of vulnerable households and facilitating reallocation of workers.

Recent developments

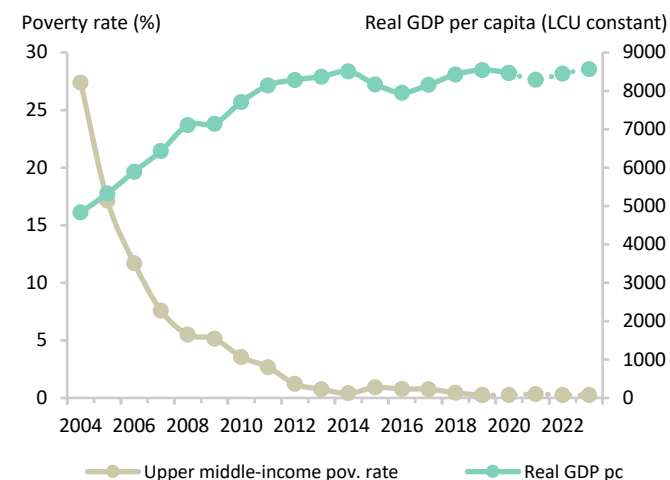
In 2020, the economy contracted by 0.9 percent y/y, dragged back by external headwinds, which were only partially offset by demand-side policy measures. Disagreements with Russia on oil supply terms contributed to a 1.9 percent decline in real merchandise exports y/y during Q1-Q3 2020. The lack of mobility restrictions, coupled with subsidized lending to SOEs (about 1.6 percent of GDP) prevented a deeper contraction of industrial output, while sustained real wage growth supported consumption. The current account deficit remained nearly balanced, as the trade surplus reached 3.2 percent of GDP. During the second half of 2020, forex deposit withdrawals and forex demand by households put strong pressure on the currency and banking sector liquidity,

FIGURE 1 Belarus / FX Reserves and Currency Trends



Sources: Belstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

accommodated by the spending of gross reserves (down 20.5 percent in 2020), and increasing banks' liabilities to non-residents. The weakening currency contributed to an acceleration in headline inflation to 7.4 percent at end-2020 from 4.7 percent in 2019. To prevent additional currency pressures, the National Bank switched from the provision of overnight loans to weekly auctions. In February 2021, the government introduced broad-based price controls by capping monthly price increases on basic food items and drugs.

For the first time since 2009, the general government budget shifted into a deficit: 1.2 percent of GDP. Tax revenues dropped by 2.6 percentage points (pp) of GDP, on lower revenues from profit tax and foreign trade. Spending grew by 1.9pp of GDP as capital expenditures and public sector wages increased by 2pp and 0.6pp of GDP, respectively. External public debt repayment pressures were alleviated by issuances of Eurobonds (US\$1.25bn), RUR-denominated bonds (US\$135mln), and loans from Russia and the EFSD (totaling US\$1 bn).

Real household incomes grew by 4.6 percent in 2020 on account of higher real wages (8 percent y/y), though the pace of disposable income growth decreased in the latter half of 2020. While the national

poverty rate remained unchanged in 2020 at 4.8 percent, this outcome was due to favorable dynamics in the Minsk City, Minsk, and Grodno regions. In other areas, rates went above 6 percent. PPP US\$5.5/day poverty remained stable at a low level (less than 1 percent).

Outlook

The outlook is for deepening recession during 2021 and weak recovery thereafter, assuming ongoing political tensions, continued headwinds from the Russian "tax maneuver", and lack of structural reforms. Recently announced tax increases – to contain the fiscal deficit and that of the pension system – will hurt an already struggling private sector, hit by the absence of support during the COVID-19 shock. Elevated market interest rates and falling investor confidence will dampen domestic and foreign investment. Recently introduced price controls are unlikely to contain inflation but in certain circumstances might cause shortages of some goods.

A GDP contraction of 2.2 percent is projected in 2021. With weak domestic demand expected to persist, the recovery is expected to be modest in the medium

term; however, slow growth will also help to compress imports and the current account deficit.

The outlook is contingent on the availability of external financing. In 2021, external financing needs will be closed by a combination of agreed debt refinancing from Russia and drawdown of reserves, and thus appears manageable. However, 2022-23 are more challenging, on account of repayments coming due of bilateral loans to Russia in 2022, and the principal repayments on Eurobonds and the nuclear power plant loan in 2023.

The government's ability to support vulnerable households is expected to weaken as a result of limited fiscal space. Probably a decline in real wages and incomes will negatively affect household welfare. Yet, measured at the World Bank's US\$5.5/day threshold, the welfare impact is projected to be small, with poverty rates increasing by 0.1pp in 2021.

TABLE 2 Belarus / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	1.4	-0.9	-2.2	1.9	1.2
Private Consumption	7.9	5.1	-3.8	-4.1	3.8	2.6
Government Consumption	-0.4	0.4	1.0	-1.2	0.6	0.3
Gross Fixed Capital Investment	4.4	3.3	-3.9	-6.5	4.3	6.7
Exports, Goods and Services	3.8	1.0	-2.0	2.1	3.0	3.8
Imports, Goods and Services	7.3	5.2	-1.0	-1.1	5.5	7.2
Real GDP growth, at constant factor prices	3.2	1.5	-1.1	-2.1	1.9	1.2
Agriculture	-3.4	3.0	3.3	2.8	3.1	3.1
Industry	5.2	1.4	-4.5	-6.7	3.5	3.3
Services	2.9	1.3	0.8	0.3	0.6	-0.6
Inflation (Consumer Price Index)	4.9	4.7	7.4	8.2	6.1	5.7
Current Account Balance (% of GDP)	0.0	-1.8	-0.3	-0.2	-1.4	-2.4
Net Foreign Direct Investment (% of GDP)	2.4	2.0	0.0	0.0	0.0	0.0
Fiscal Balance (% of GDP)	4.0	2.4	-1.2	-2.6	-1.1	-0.5
Debt (% of GDP)	42.5	37.9	41.9	44.1	44.0	45.4
Primary Balance (% of GDP)	5.9	4.2	0.8	-0.4	1.0	1.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	0.4	0.2	0.2	0.3	0.2	0.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-HHS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.