Low export revenues and weak domestic demand continue to undermine economic activity.

Contribution to GDP Growth, in percent

Source: World Bank Staff estimates on the basis of National Statistics.
Low commodity exports and increased payments on foreign loans keep the current account in deficit

- Tentative recovery of Russia’s industrial activity benefited merchandise exports, but the decrease in value and price of exports of oil products, potash fertilizers, and metals worsened the merchandise trade balance.

- The deficit on primary incomes put a drag on the current account, and the CAD widened to 4.6 percent of GDP in Jan-Aug 2016
A sharp decline in revenues required large contraction in capital expenditures to avert fiscal imbalance

- Customs duties from oil products and potash shrank considerably, and interest expenses increased.

- Adjustments were made on the expenditure side: capital expenditures were cut by 14.5 percent in real terms.

- This helped to reach general government surplus at 1.9 percent of GDP (Jan-Sept 2016).

- Public debt continued to rise, reaching 48 percent of GDP by Sept 1, 2016.
Weak labor market conditions led to declining incomes of households

- More jobs were cut than created, some of the largest SOEs continued to downsize labor
- Real wages and incomes continued a downward trend
- Rise in poverty was contained by further increases in targeted social assistance spending

Source: Belstat and Ministry of Labor and Social Protection.
## Outlook

<table>
<thead>
<tr>
<th>Indicator/year</th>
<th>Actual</th>
<th>Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Real GDP, % growth</td>
<td>1.7</td>
<td>-3.9</td>
</tr>
<tr>
<td>Private Consumption, % growth</td>
<td>4.4</td>
<td>-2.4</td>
</tr>
<tr>
<td>Government Consumption, % growth</td>
<td>-1.8</td>
<td>-1.8</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment, % growth</td>
<td>-8.8</td>
<td>-12.1</td>
</tr>
<tr>
<td>Goods and Services Exports, % change (nominal $)</td>
<td>-3.6</td>
<td>-4.2</td>
</tr>
<tr>
<td>Goods and Services Imports, % change (nominal $)</td>
<td>-7.4</td>
<td>-7.0</td>
</tr>
<tr>
<td>Current Account Deficit, % GDP</td>
<td>-7.0</td>
<td>-3.7</td>
</tr>
<tr>
<td>Fiscal Balance, % of GDP (net of quasi-fiscal expenditures)</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>General Government Debt, % of GDP</td>
<td>34.2</td>
<td>48.2</td>
</tr>
<tr>
<td>Poverty Rate (US$5 a day, PPP terms), % of households</td>
<td>0.32</td>
<td>0.58</td>
</tr>
</tbody>
</table>

*Source: Belarusian Authorities and World Bank Staff projections.*
Risks

• The economy is expected to recover only in 2018 conditional on improved external environment and early outcomes of competitiveness-enhancement policies
• The space for domestic demand stimulus is very limited
• Downside risks relate to weak recovery in key trading partners, slow pace of export diversification, and low commodity prices
• Upside risks associated with reforms improving competitiveness and productivity of enterprises
Summary

• The economy remains in recession in 2016, and is expected to recover only in 2018
• Large cuts in capex compensated for contracting revenues, but public debt is on a climbing trajectory
• External imbalances remain due to lower export revenues and high payments on foreign currency debt
• Risks to the outlook are mainly on the down side, but upside risks could come from advancing structural reforms, including by continued improvements in business environment to stimulate the creation of new private companies and attraction of FDI
Strengthening investment climate

• Steps to liberalize business environment – reflected in the improved Doing Business Rankings – created new economic opportunities for private sector growth:
  – Empirical analysis (2006-14, rayon-level) shows that growth in the number of private micro- and small-sized enterprises is more responsive to broader liberalization measures than specific regional policies;
  – Measures to improve investment climate have also had a positive impact on domestic/rayon-level investment dynamics (2006-14)
Strengthening investment climate

• Economies that provide a good regulatory environment for domestic firms tend to provide also favorable conditions for foreign-owned firms:
  – Worldwide, higher DB scores are generally associated with higher inflows of FDI

• Despite progress in DB rankings, FDI in Belarus remains low:
  – The level of FDI per capita in Belarus remains around US$180 (2008-15), consists mainly of reinvested profits
Strengthening investment climate

• Attracting FDI goes beyond improvements in DB scores:
  – The development of services sector – that can be spurred by the WTO accession – indirectly supports FDI through the availability of domestic business support services

• FDI can help Belarusian companies to reach new markets and manufacture of new products:
  – The contract manufacture allows matching the strengths of local enterprises with the competences of foreign companies in wholesaling, retailing, and brand management

• Long-term partnerships with strategic investors enable local companies with new growth opportunities:
  – SOEs can align with foreign investors that possess the “know who/how” to increase the productivity of assets and also understand and mitigate downside risks
Thank you!

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