At a Glance

• After two years of recession, Belarus’ economy has started to grow modestly. In the medium term, economic growth is expected to remain weak despite improved external conditions, as structural bottlenecks persist and domestic demand remains subdued. Large external financing needs and bad debts to banks continue to pose risks.

• Going forward, the major challenge for Belarus is to improve living standards by escaping its low-growth trajectory. This means letting the private sector grow, improving the efficiency of state-owned enterprises, and strengthening social safety nets to help the most vulnerable.

• Over the past four years, the World Bank’s active portfolio in Belarus has grown rapidly from US$458 million to US$991 million. Projects supported by the World Bank have delivered significant results with respect to transport infrastructure, water supply, waste management, energy efficiency, and public services.

Country Context

Belarus has pursued a gradual transition path, characterized by limited structural reforms and a modest reorganization of Soviet production networks. Instead of privatization and a reliance on the private sector as the main driver of growth, policies have focused on upgrading large state-owned enterprises (SOEs).

Economic growth has been accompanied by a remarkable fall in the number of households below the poverty line and an increase in household income among the bottom 40%. The proceeds from that growth have been redistributed to the population through utility subsidies, real wage growth, and full employment.

Unfortunately, the factors that enabled Belarus’ past success are no longer in play. It is no longer possible to increase capital utilization rates, the Russian fuel subsidy is less valuable, and higher debt-service ratios make it difficult to finance consumption from foreign borrowing. Henceforth, improved living standards must come from higher productivity.

A sustainable improvement in living standards will therefore require economic, social, and institutional transformation, with an enhanced role for private enterprise, markets, and strengthened safety nets.

Key pathways include (i) unleashing market forces, (ii) maintaining Belarus’ skills advantage, and (iii) improving logistics and trade regulations.
The World Bank and Belarus

Over the past four years, the World Bank Group’s (WBG) assistance has focused on (i) increasing the competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the SOE sector, and promoting private and financial sector development and integration into the global economy; (ii) improving the quality and efficiency of public infrastructure services and the use of agricultural and forestry resources, and increasing global public goods benefits; (iii) enhancing human development outcomes through better education, health, and social services.

The WBG’s organizations—the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA)—are preparing a new Country Partnership Framework for FY18–22. It builds on Belarus’ remarkable social achievements and its 25-year productive cooperation with the WBG and aims to help Belarus to find solutions to its structural economic challenges, maintain the human capital edge, and protect people and the environment.

Key Engagement

World Bank–supported programs have delivered important development results with respect to transport infrastructure, water supply, waste management, energy efficiency, and public services. For example, 53 kilometers (km) of road between Minsk and Bobruisk have been upgraded from a two- to four-lane motorway, reducing transport costs for users and lowering road accidents. A modern mechanical waste separation plant was constructed in Grodno. In addition, pupils, teachers, doctors, and patients now receive upgraded and more reliable utility services in 1,000 social sector buildings in all regions of Belarus.

Other expected results are:

- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by 2019.
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- 145 megawatts of additional electric capacity from modern gas turbines is being installed, and the efficiency of heat and power generation at project sites will be increased by 15–30% by 2018.
- 79,000 Belarusians living in 13 towns will benefit from the efficient use of renewable biomass in heat and electricity generation by 2019. The cost of the heat supply is expected to be reduced on average by 63% in these towns.
- 154 km of road linking Minsk and Grodno will be upgraded by 2019.
- 4.5 million hectares of forests outside protected areas will be managed as biodiversity friendly by 2020.
- By 2018, Belarus will participate in the internally recognized Program for International Student Assessment (PISA).
- 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.

WORLD BANK PORTFOLIO

No. of IBRD loans: 9
Lending (IBRD): $991 million
GEF: 1 Grant ($2.7 Million)
Recent Economic Developments

The economy started to stabilize in the first half of 2017 and grew modestly, ending a two-year long contraction. Real GDP grew 1.1% year-on-year (y-o-y) in the first seven months of 2017, in sharp contrast to the 2.7% decline y-o-y in the same period of last year. A tentative economic recovery in Russia helped to boost exports and support a moderate increase in domestic business activity, especially in industry.

The deterioration of household income slowed with resumed real wage growth. In the first half of 2017, real disposable income declined by 0.8% (compared to a 6.6% y-o-y drop a year ago). The poverty rate (national headcount ratio) increased from 5.5% in the second quarter of 2016 to 5.9% in the second quarter of 2017. Moderate poverty, measured at the purchasing power parity (PPP) US$5.5/day threshold, remained low at 0.7% in 2016.

The macroeconomic policy stance has remained tight, despite some easing measures introduced recently as inflation stabilized. The tight fiscal and monetary policies of previous years helped reduce inflation to 6% in July 2017, the lowest level in a decade.

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The Government’s official fiscal accounts continue to register a surplus, but public debt levels continue to increase. General government revenues recorded modest real growth due to increased value added tax (VAT), excise, and corporate income tax revenues. To meet the public debt obligations, general government expenditures were cut—mainly subsidies and transfers—to generate a budget surplus of 3.2% (net of quasi-fiscal expenses).

The April 2017 agreements between Belarus and Russia over gas price and oil supplies have paved the way for the disbursement of two tranches of a Eurasian Fund for Stabilisation and Development (EFSD) loan totaling US$600 million and the issuance of two Eurobonds in the amount of US$800 million and US$600 million, for five and ten years, respectively.

Economic Outlook

Despite a tentative recovery in 2017, medium-term economic growth is expected to remain weak as structural bottlenecks persist and domestic demand remains subdued. Improved external conditions are expected to remain in place, supporting moderate growth of 1.8% y-o-y in 2017 and 2.1% in 2018.

Moderate growth will help to maintain a current account deficit below 4% of GDP over the forecast period. The pathway to sustainable growth includes restructuring SOEs and resolving related fiscal risks, addressing nonperforming loans, and better targeting social protection and unemployment assistance.

Despite the growth of real wages and a nominal 6.5% increase in budget sector wages beginning in September 2017, the moderate poverty rate (PPP US$5/day) is projected to remain stable during 2017–18 due to the very slow recovery of real household income as a result of the Government’s 8% increase in household utility tariffs, also beginning in September.

Another rise of 10% is planned starting December 1 to reach full cost-recovery level on all utilities except for heating by the beginning of 2018.

Tariff growth would require more robust mitigation measures by improving the targeting of the existing household utility subsidy program. Labor market conditions will remain tight, as a still weak financial situation and accumulated debts will prevent enterprises from increasing employment.
**Project Spotlight**

**Innovative Transport Solutions**

Belarus serves as an important transit corridor for the region. Well-kept roads connect people to public amenities and reduce travel time, vehicle operation costs, and accident risks. The World Bank has helped Belarus to upgrade 53 km of a highway segment between Minsk and Gomel, and over 154 km of the highway linking Minsk and Grodno will be upgraded by 2019.

To maintain safe, efficient road networks and to improve their operation, the authorities need reliable, standardized, and timely data on road conditions and traffic volume. However, collecting such information through conventional methods is costly and time-consuming.

In the past two years, the Belarusian Road Engineering and Technical Center has teamed up with the Bank and developed a smartphone app called “Roadlab,” which links drivers to road maintenance authorities and allows for the automatic collection of data on pavement roughness. The success of this experiment led to the adoption of the software in World Bank projects in other regions.

Protecting road assets and effectively controlling truck weights are important aspects of safeguarding road infrastructure, ensuring safety, and reducing greenhouse gas emissions. As a transit country, Belarus has a large number of trucks traveling on its road network. Recently, the Government implemented microwave-based e-tolling and a weigh-in-motion system (WIM) to link with the existing e-tolling system.

This state-of-the-art WIM system, financed under the Road Upgrading and Modernization Project, will help to reduce overloaded trucks on Belarusian highways. It includes 12 WIM sites, four fixed heavy vehicle inspection centers, and eight mobile stations, with locations strategically distributed throughout the network.

WIM control sites process raw data locally and send information on weighed vehicles to the central system unit or to mobile stations and transport inspection patrols. The Ministry of Transport and Communications in Belarus has also started to use such data to analyze traffic density and traffic patterns by time and location.