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Belarusian economy: an overview

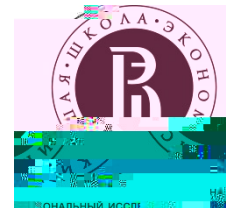
**Presentation to the European Parliament – Delegation for Relations with Belarus,
Brussels, March 3, 2016**

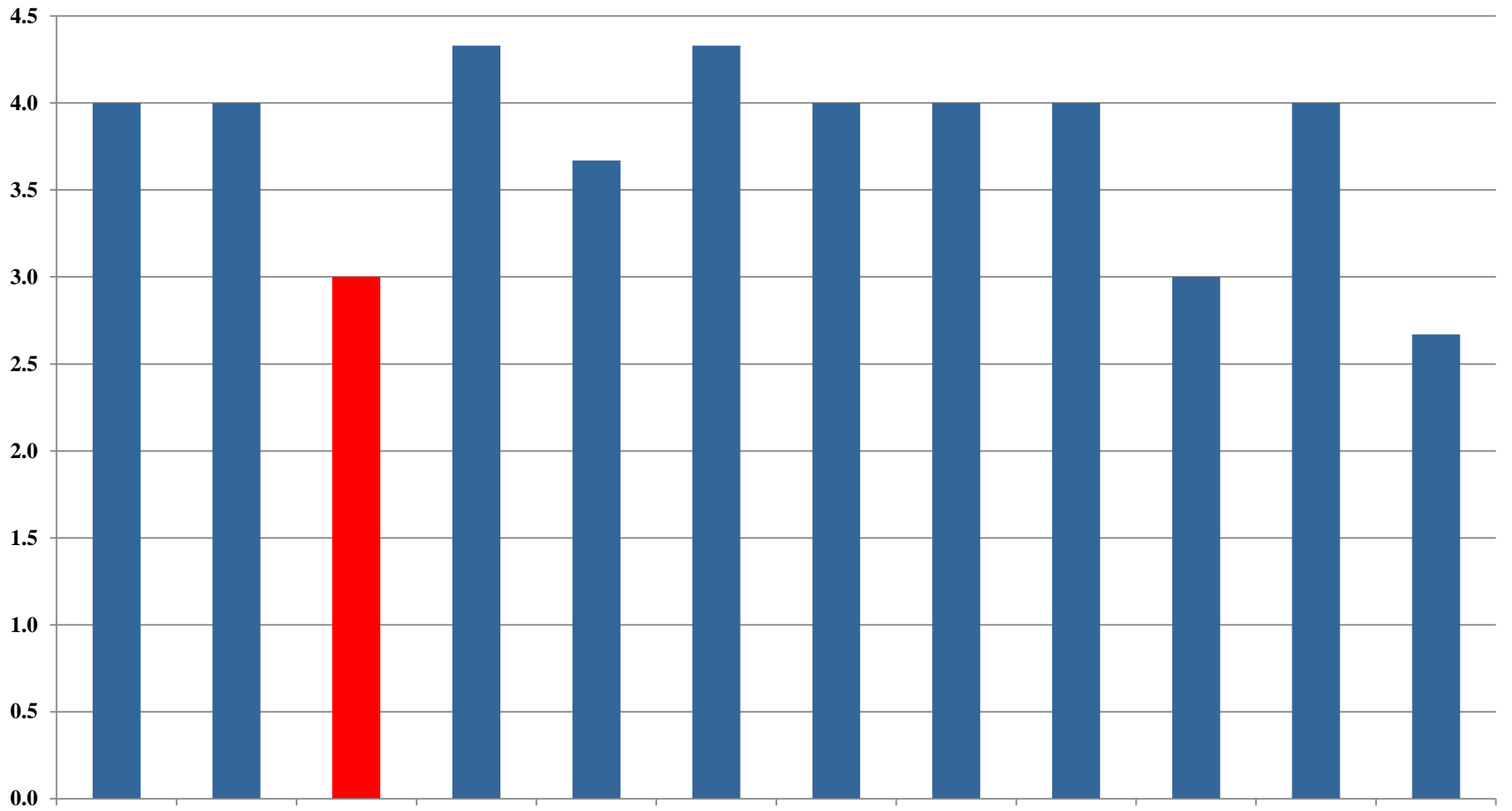
Plan of presentation

- Belarus – the last enclave of non-market economy in Europe
- The Belarusian paradox – high growth rate for 15 years without meaningful market transformation
- But at the cost of macroeconomic disequilibria
- End of Belarusian growth ‘miracle’
- Deteriorating external environment
- Latest reform attempts (2015) against what should be done

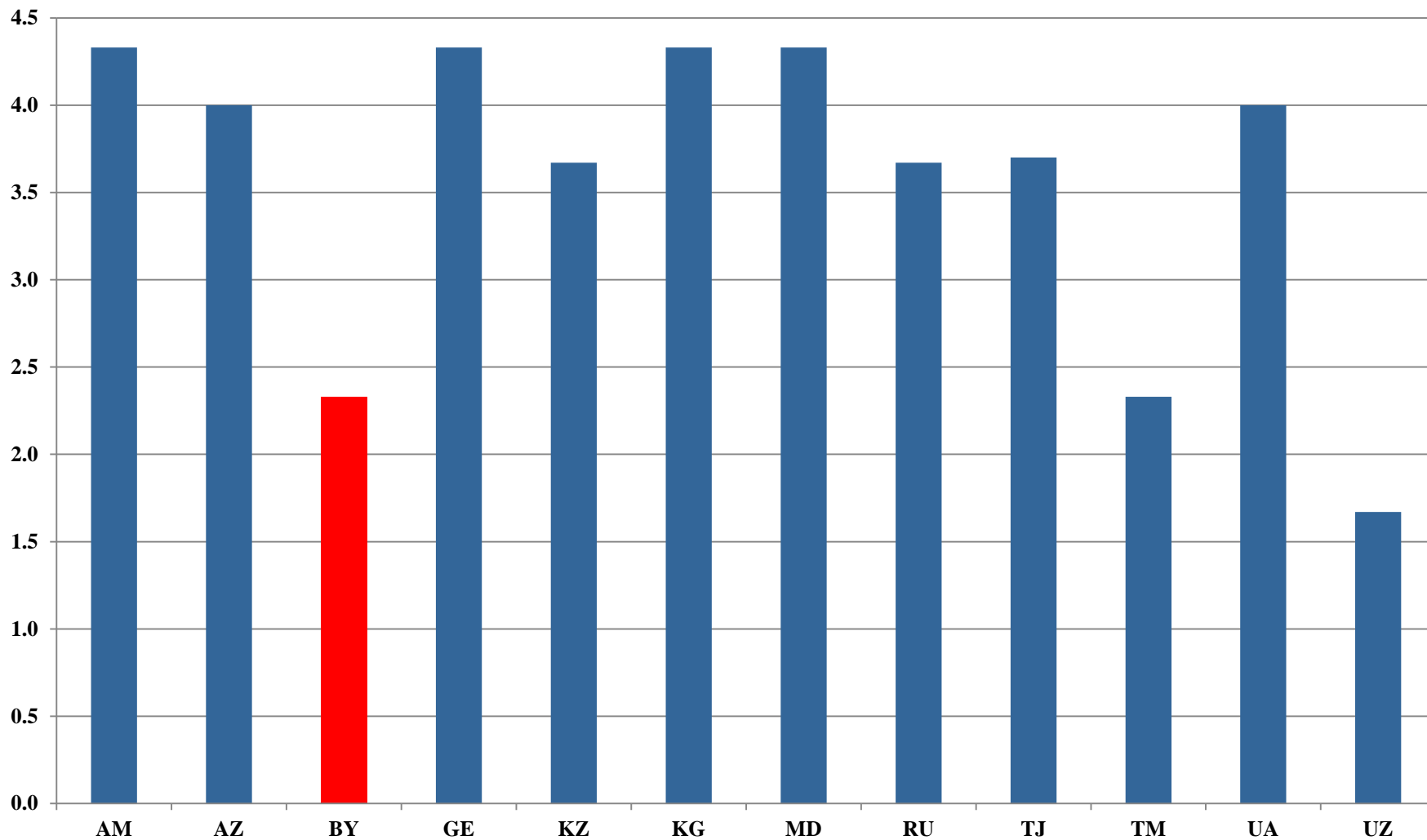
Belarusian economy: institutional characteristics

- The least reformed post-communist economy in Europe
- The second/third least reformed economy in the FSU - after Turkmenistan and (in some parameters) Uzbekistan
- Private sector contribution to GDP: 30% in 2010 (EBRD)
- Mandatory production targets and other elements of administrative mobilization

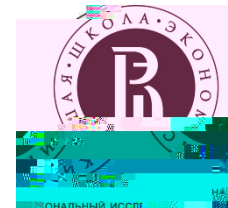
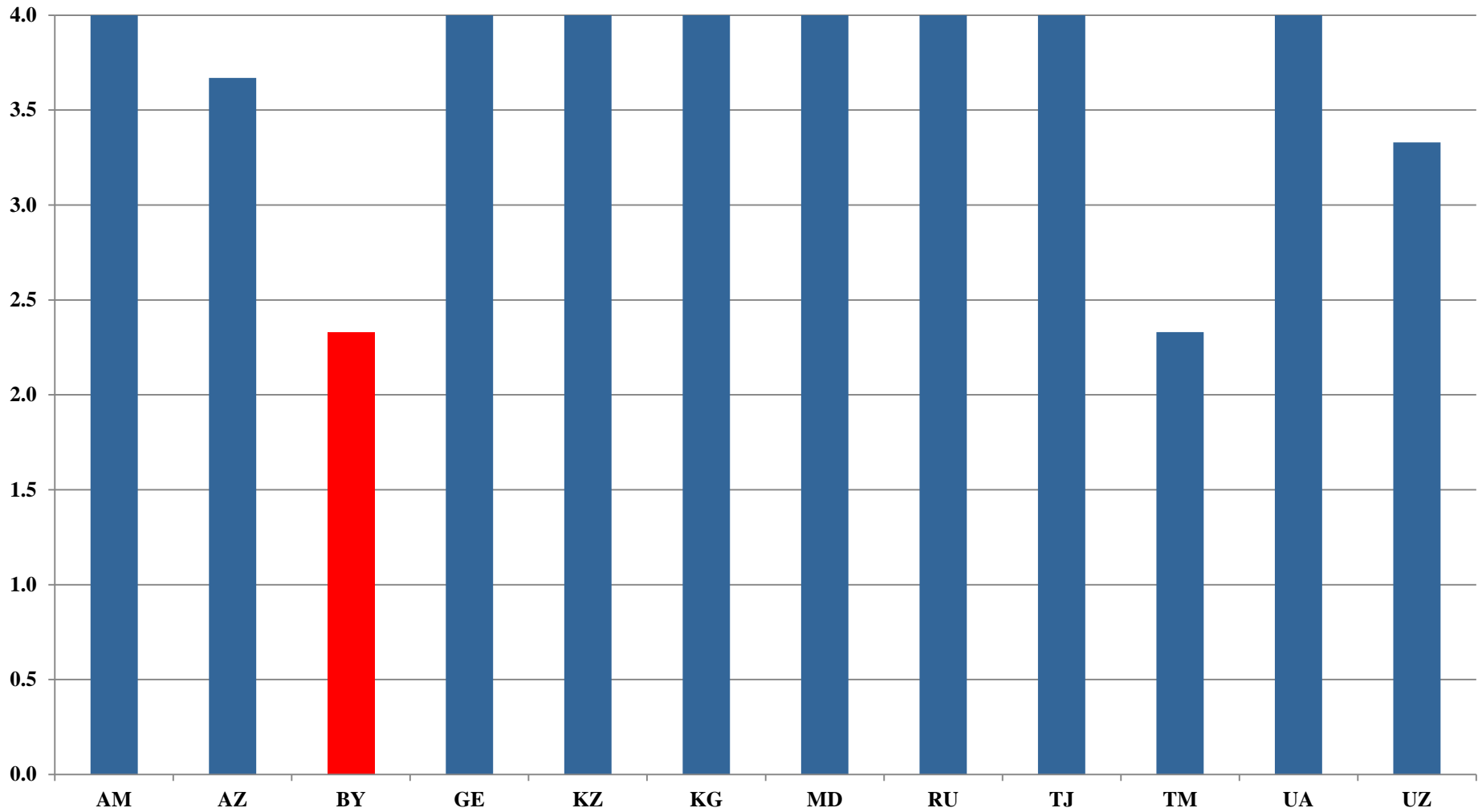




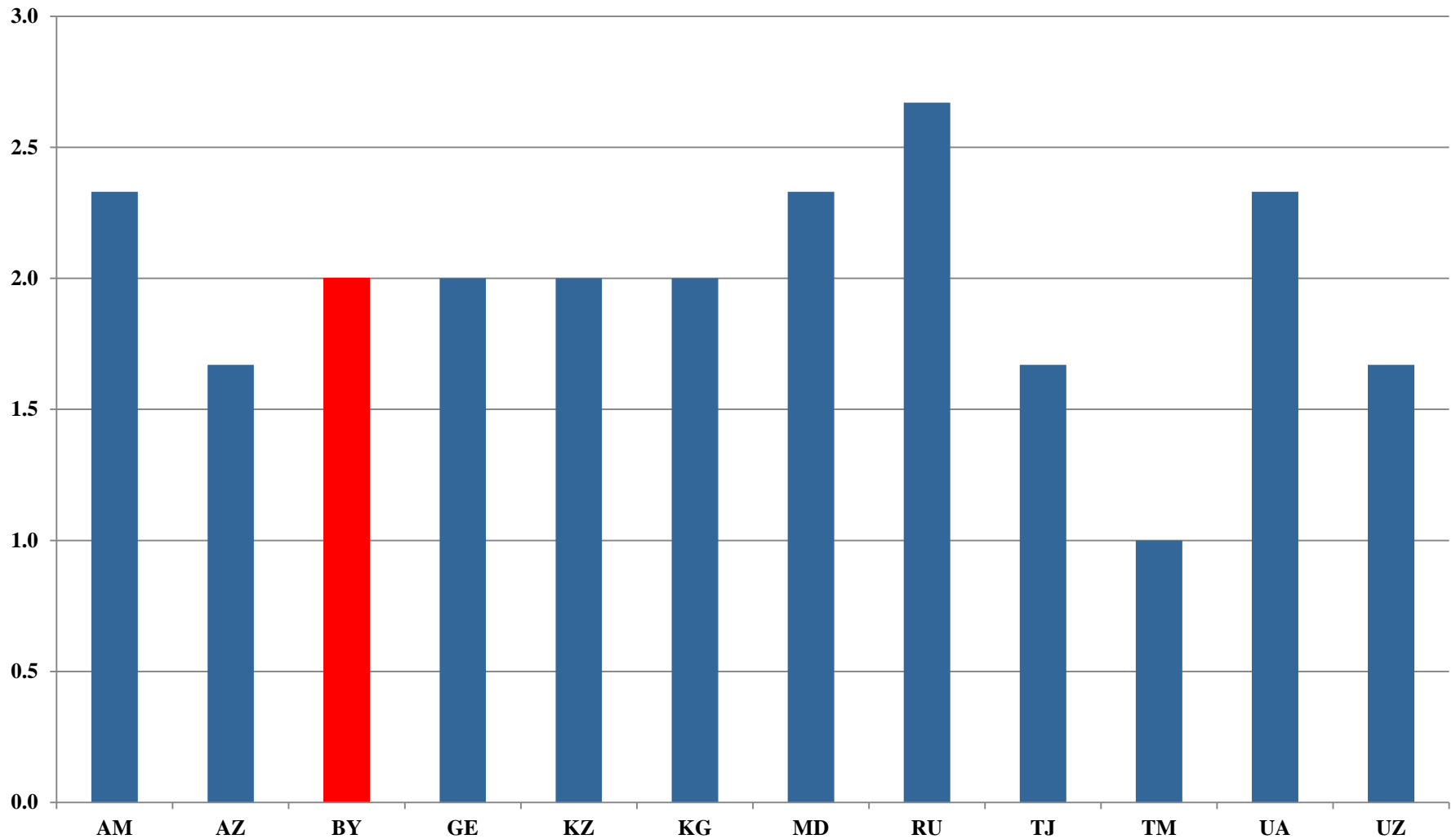
FSU countries: trade and forex system, EBRD 2014



FSU countries: small-scale privatization, EBRD, 2014



FSU countries: competition policy, EBRD, 2014

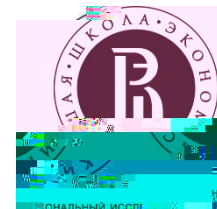
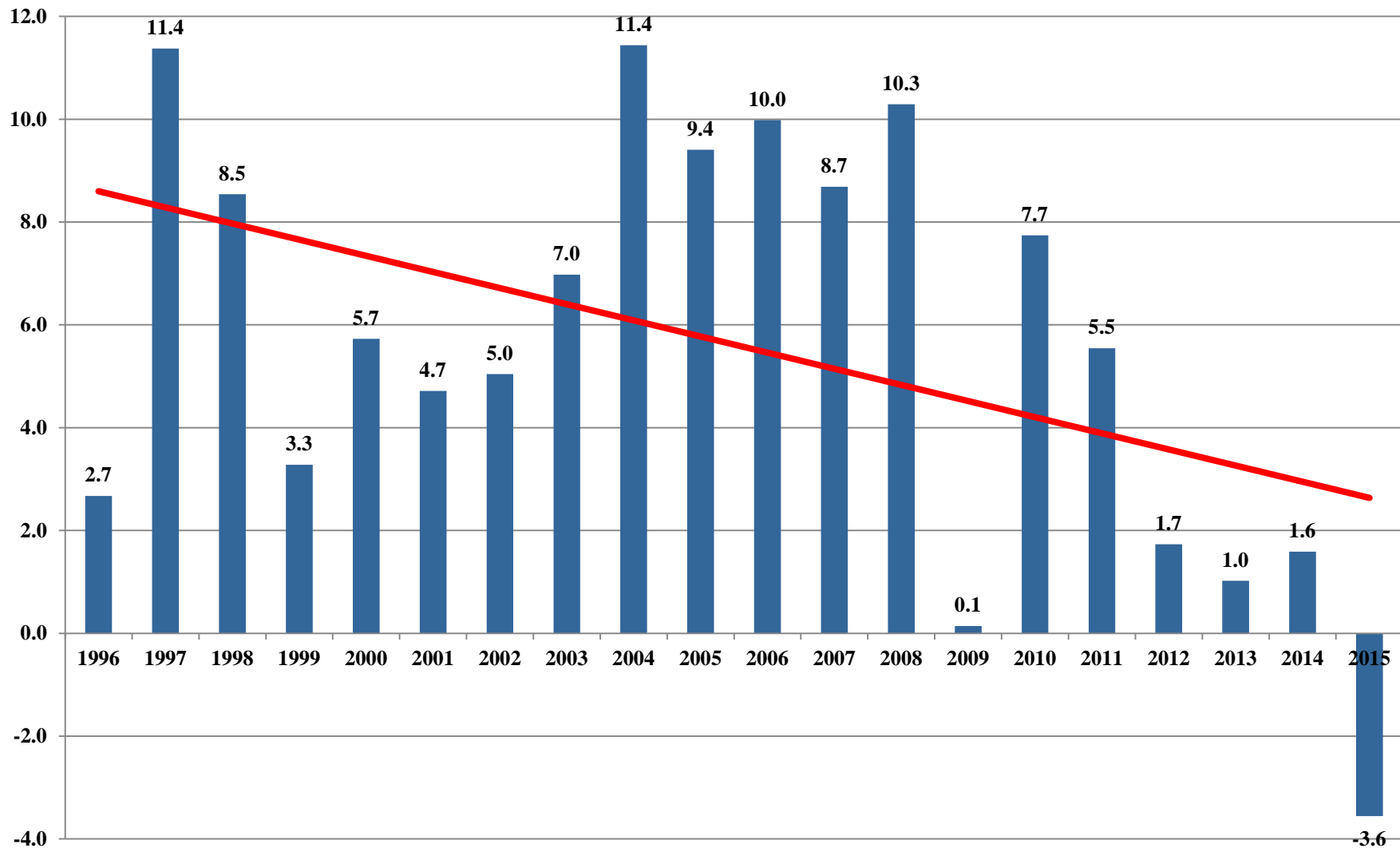


Explanation of high-growth rate 1997-2011

- Better starting conditions after collapse of the USSR as compared to other CIS countries
 - The second highest GDP per capita after Russia
 - Good physical infrastructure and human capital
 - Relatively modern industry able to compete on Russian/ CIS market
- Retaining capacity of administrative ‘mobilization’
- Very high investment rate
- Support from Russia (low import prices for oil and natural gas against playing various integration projects)
- Statistical problems with GDP deflators in semi-command economy

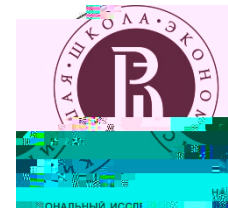


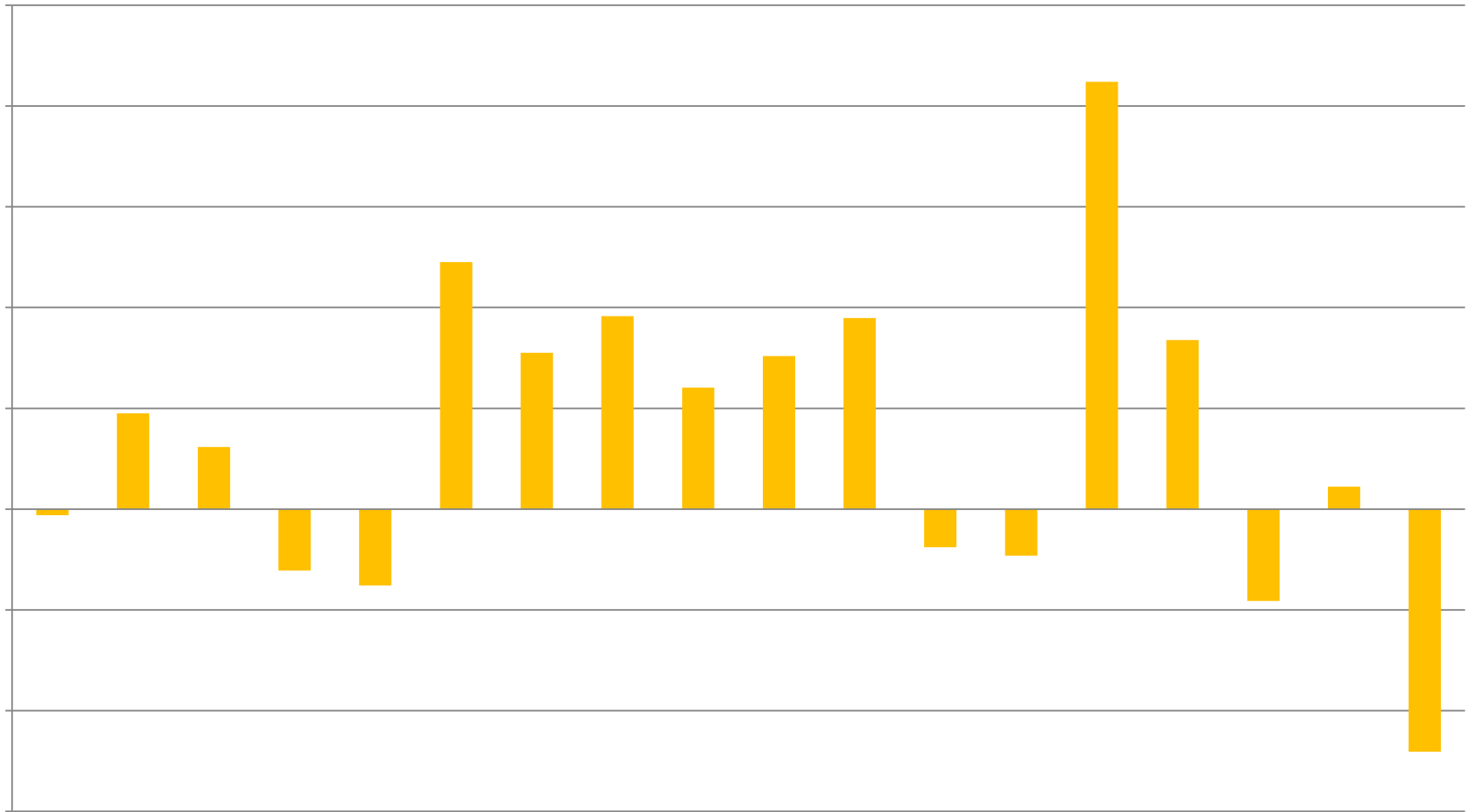
GDP, constant prices, % change

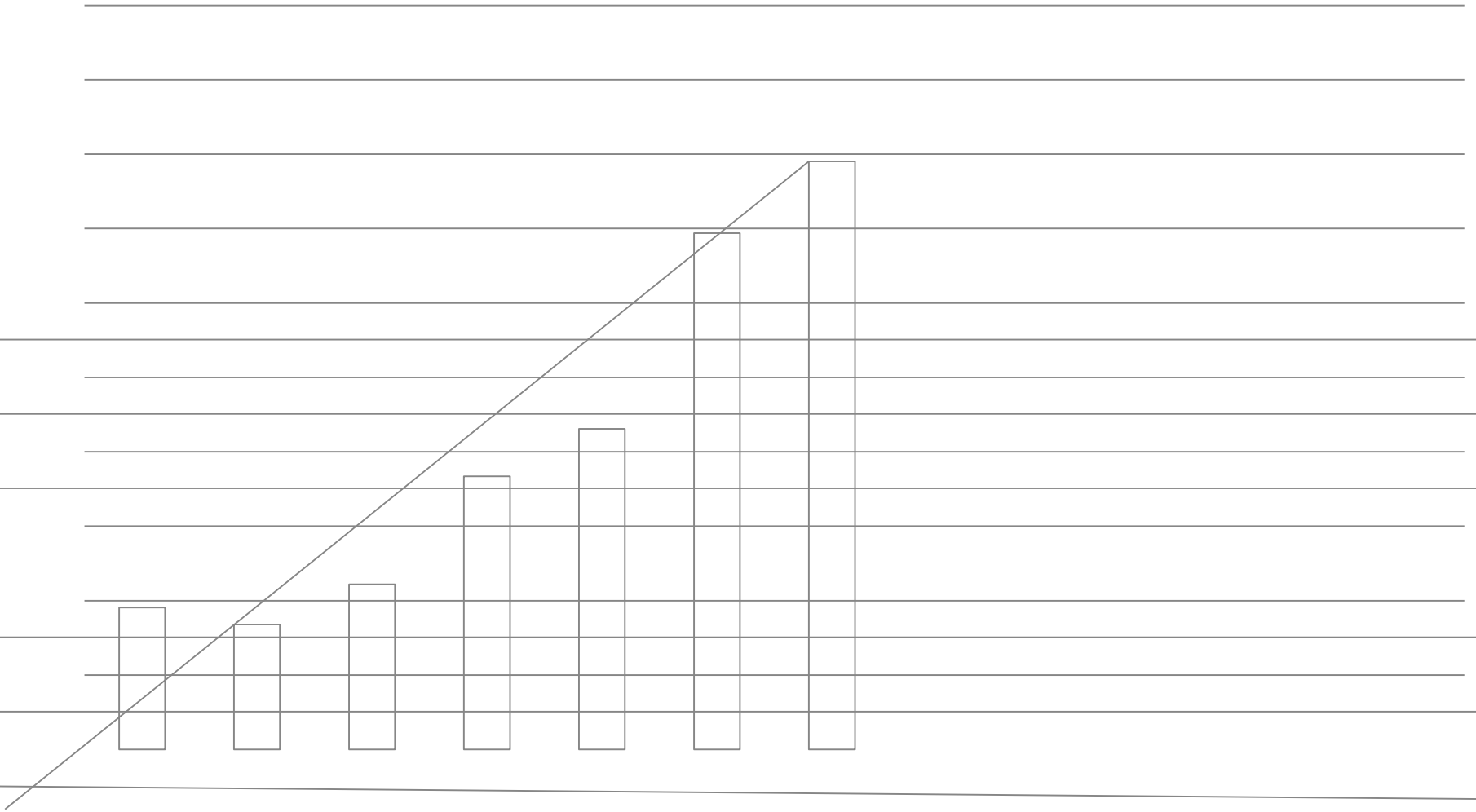


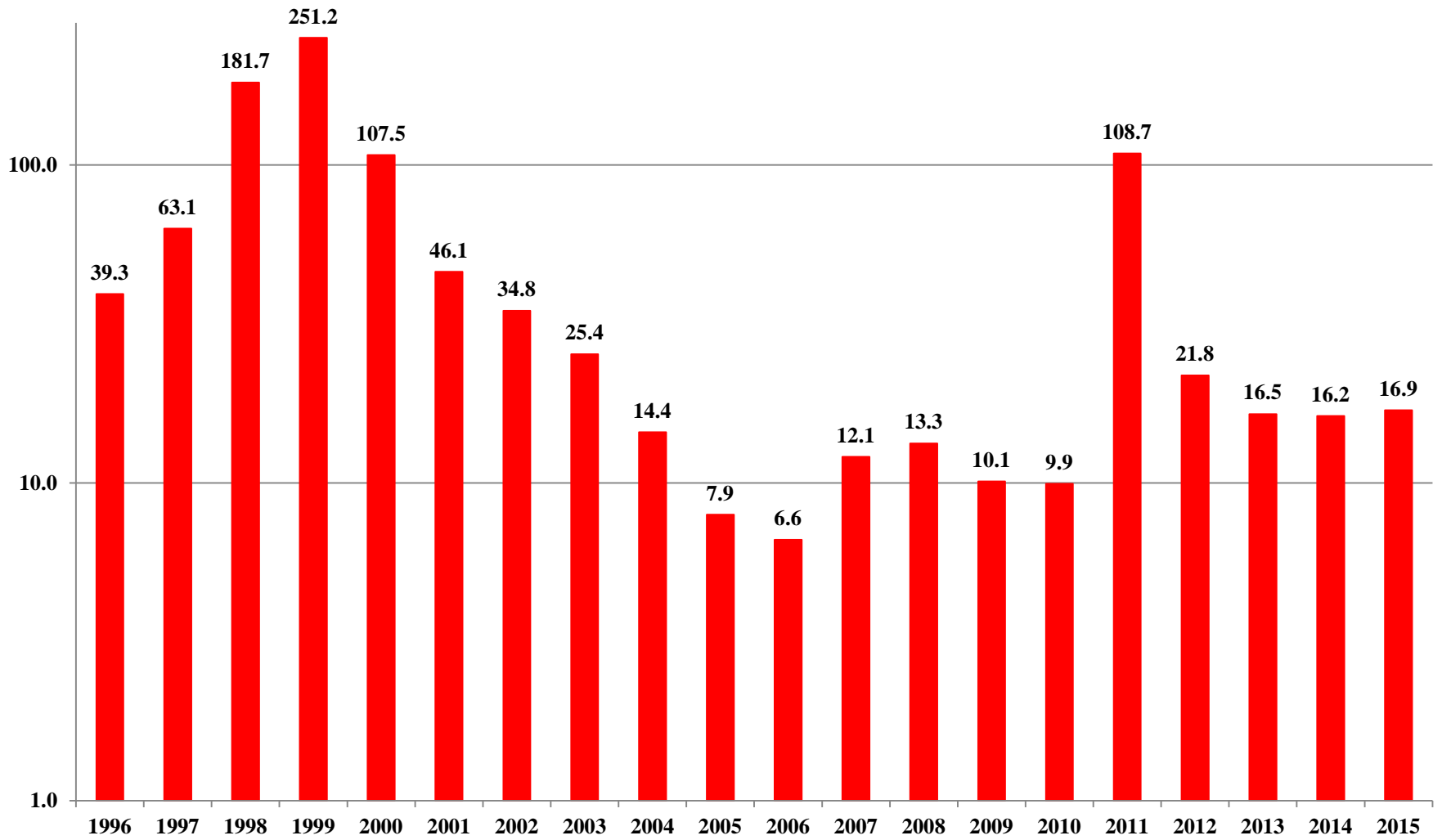
Macroeconomic disequilibria

- Formally fiscally sound
- But quasi-fiscal activities of the NBRB and commercial banks (6% of GDP in 2010, 9.3% of GDP in 2011, down to 4% in 2014) and their origins \ddot{Y} monetary expansion
- High inflation: cumulative 1,700% (2000-2014)
- Chronic current account deficit financed largely by government borrowing from Russia, EaDB, Venezuela, Azerbaijan, Eurobonds, IMF (2009-2010)
- Limited inflow of FDI
- BoP crises (1998-2000, 2008-2009, 2011, 2014-2016)

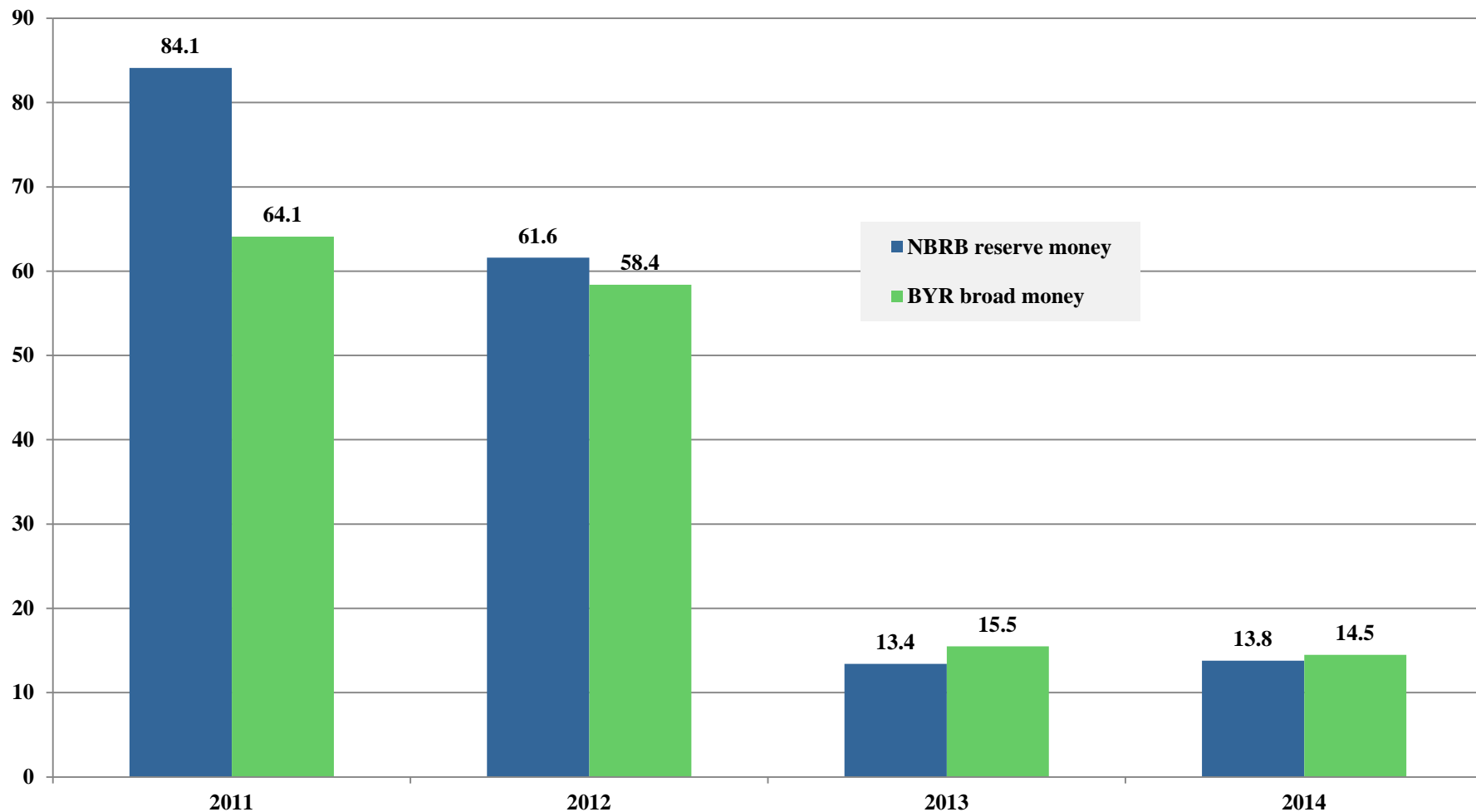




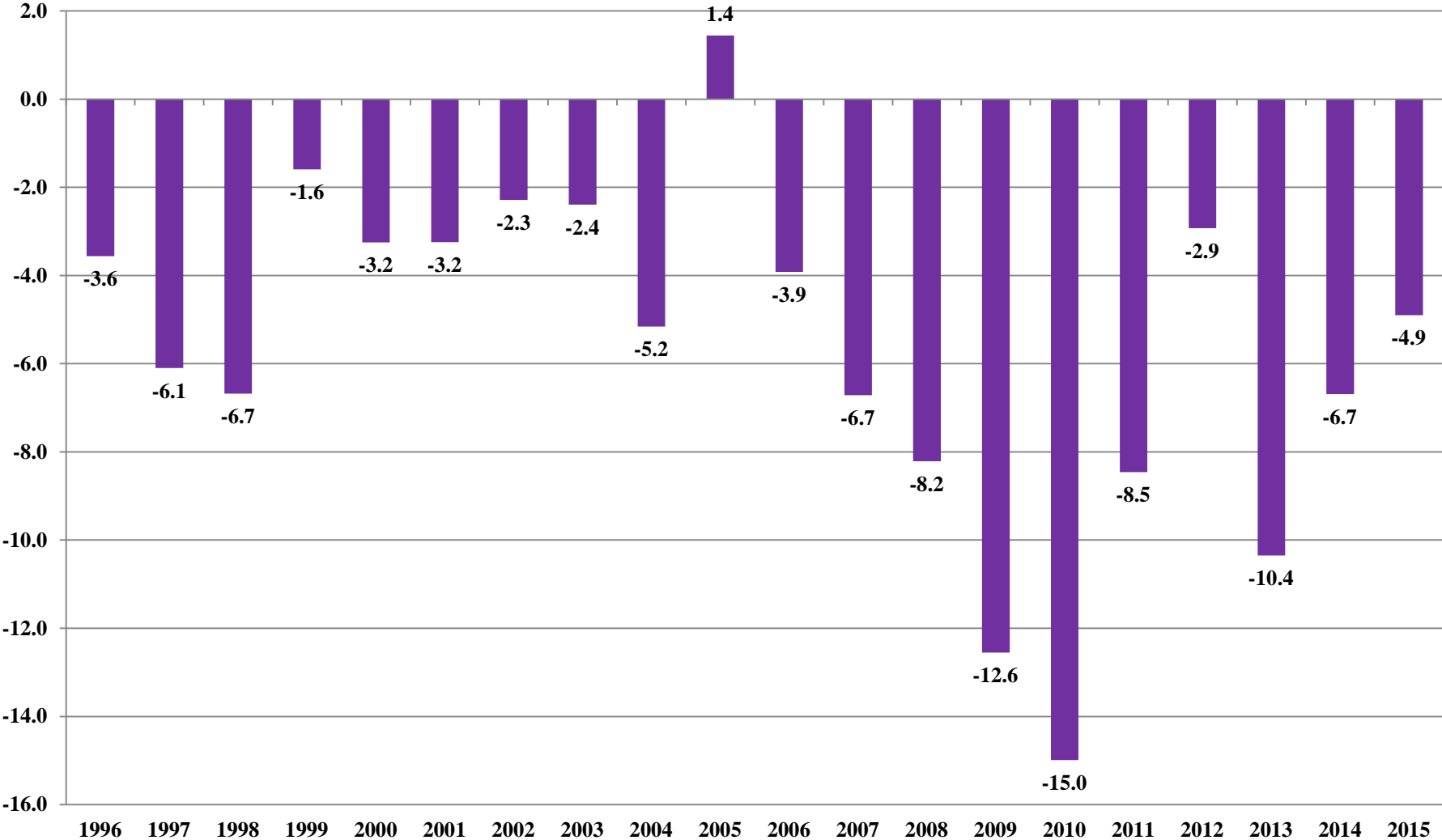




Belarus, nominal increase in monetary aggregates, %, 2011-14



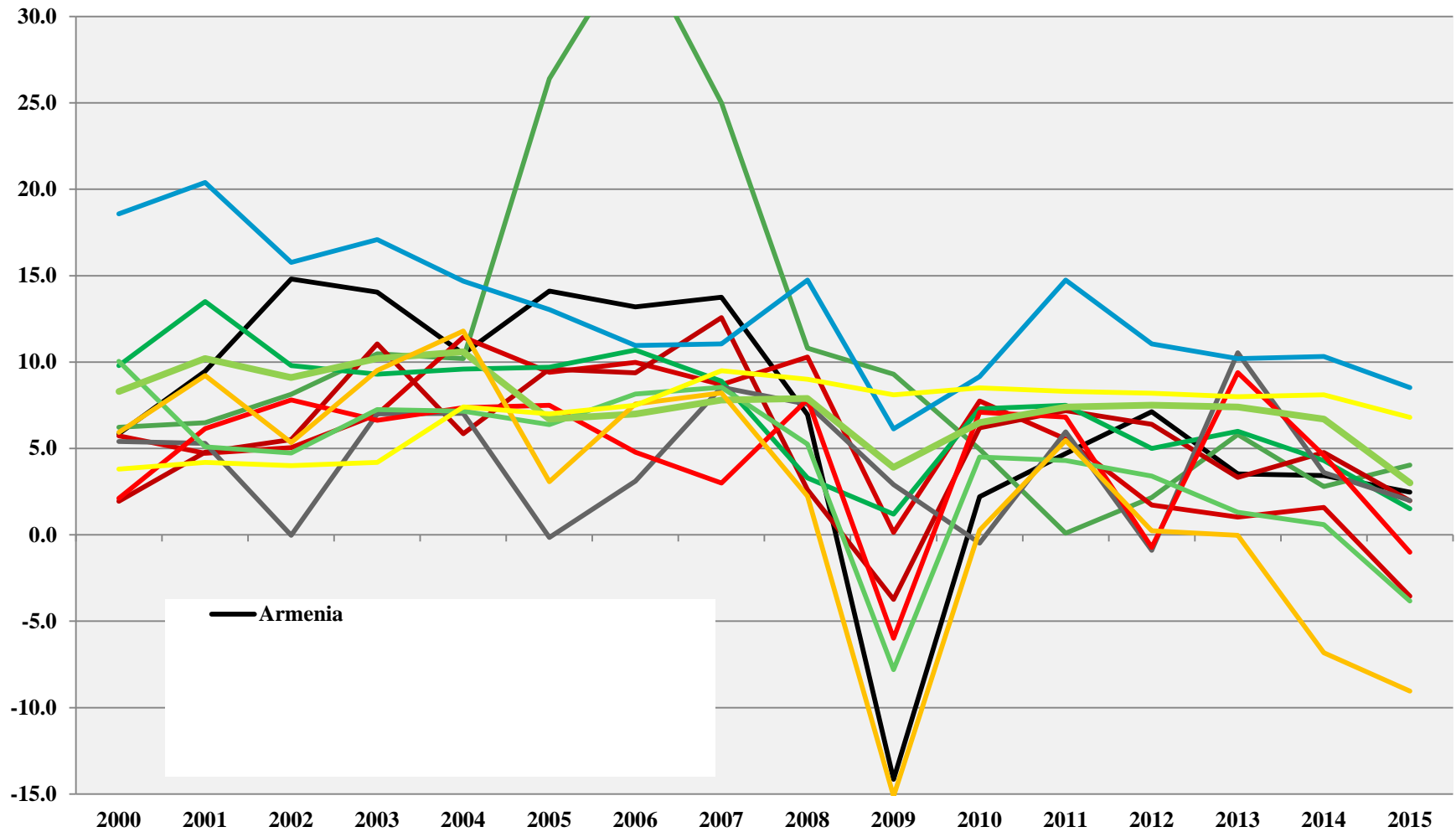
Current account balance, % of GDP



End of the Belarusian growth miracle

- Accumulated structural distortions
- Decreasing competitiveness of the Belarusian economy (even on the FSU market)
- Decrease in Russia's energy-related transfers
- Consequences of the EaEU and WTO accession of Russia and Kazakhstan
- Consequences of the Ukrainian conflict
- Declining growth in emerging-market economies and FSU
- Currency crisis in Russia and FSU

FSU: annual rate of change in real GDP, %, 2000-2015



Attempt of reforms in 2015

- 2014-2015: personal changes in the NBRB, Presidential Administration, and Government
- Less anti-market rhetoric
- NBRB: from USD peg to monetary targeting, attempt to curb credit emission and QF activities
- Less macroeconomic populism in election campaign
- Limited enterprise restructuring
- Easing business environment (44th rank in WB DB 2016)
- Some adjustment in energy and utility prices
- Negotiation with the IMF – so far without results



Reforms needed in the Belarusian economy

- Macroeconomic stabilization: elimination of QF operations, credible monetary policy anchor, NBRB independence
- Macroeconomic stabilization impossible without