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Belarusian economy: an overview

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: price liberalization, EBRD, 2014
FSU countries: trade and forex system, EBRD 2014
FSU countries: small-scale privatization, EBRD, 2014
FSU countries: large-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

- 1996: 2.7
- 1997: 11.4
- 1998: 8.5
- 1999: 3.3
- 2000: 5.7
- 2001: 4.7
- 2002: 5.0
- 2003: 7.0
- 2004: 11.4
- 2005: 9.4
- 2006: 10.0
- 2007: 8.7
- 2008: 10.3
- 2009: 0.1
- 2010: 7.7
- 2011: 5.5
- 2012: 1.7
- 2013: 1.0
- 2014: 1.6
- 2015: -3.6
Total investment as % of GDP, 1996-2014
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 ⇒ 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
GG net lending/borrowing, % of GDP
GG gross debt, % of GDP
Inflation, eop consumer prices, % change

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<tr>
<th>Year</th>
<th>Inflation</th>
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<tr>
<td>1996</td>
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<td>2015</td>
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Belarus, nominal increase in monetary aggregates, %, 2011-14

- NBRB reserve money
- BYR broad money
Current account balance, % of GDP

Year: 1996 - 2015

Values:
-16.0, -15.0, -12.6, -8.5, -6.7, -6.7, -4.9, -2.9, -2.3, -5.2, 1.4, 1.4, -1.6, -3.2, -3.2, -2.4, -3.6, -6.1, -6.7, -6.1

GDP Percentage: -6.0, -4.0, -2.0, 0.0, 2.0, 4.0, 6.0, 8.0, 10.0, 12.0, 14.0, 16.0
Belarus, net inward FDI, % of GDP, 1996-2014
Exchange rate BYR/1 USD, 1992-2015
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 microeconomic and institutional reforms: elimination of administrative mobilization, privatization, deregulation, opening up economy and WTO membership, development of competitive financial sector, legal reforms, etc.

• So far fundamental economic and legal reforms seen as challenge to the stability of political regime