BELARUS

Highlights

- **The economic recovery has accelerated.** The economy grew by 2.4 per cent in 2017, following two years of recession, and has picked up speed in the first half of 2018.
- **Inflation has been brought down to its lowest level.** Consumer price inflation averaged 6.0 per cent in 2017 and decreased further to 4.8 per cent in the first nine months of 2018 on the back of prudent monetary, fiscal and credit policies.
- **Work is under way to improve governance and management in the state enterprise sector.** The authorities have rolled out pilot projects on commercialisation of the state road construction holding company and on strengthening the state's ownership function.

Key priorities for 2019

- **Further progress should be made in the modernisation of the financial sector.** The ongoing institutional building and pre-privatisation work in some of the state banks is paving the way for attracting good-quality equity participation by private investors. State lending programmes need to be decreased and, in the near future, fully phased out.
- **The authorities need to undertake benchmark-setting privatisation in the real sector.** A successful entry of a credible international investor in a state-owned company (SOE) would set a precedent that could be replicated by other SOEs, thus enhancing productivity and the role of the private sector.
- **Initial steps to commercialise the state sector need to be scaled up.** Replication of the model state holding company by other SOEs and wider application of OECD corporate governance principles will be necessary to improve the quality of management in the state sector.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	1.7	-3.8	-2.6	2.4	3.0
Inflation (average)	18.1	13.5	11.8	6.0	5.5
Government balance[1]/GDP	0.1	-3.0	-1.7	-0.3	-2.4
Current account balance/GDP	-6.6	-3.2	-3.3	-1.6	-2.5
Net FDI/GDP [neg. sign = inflows]	-2.3	-2.7	-2.4	-2.2	-2.1
External debt/GDP	50.7	67.5	78.6	73.4	n.a.
Gross reserves/GDP	6.4	7.4	10.3	13.4	n.a.
Credit to private sector/GDP	21.1	23.1	21.2	22.0	n.a.

[1] Includes central government, local government and social security funds.

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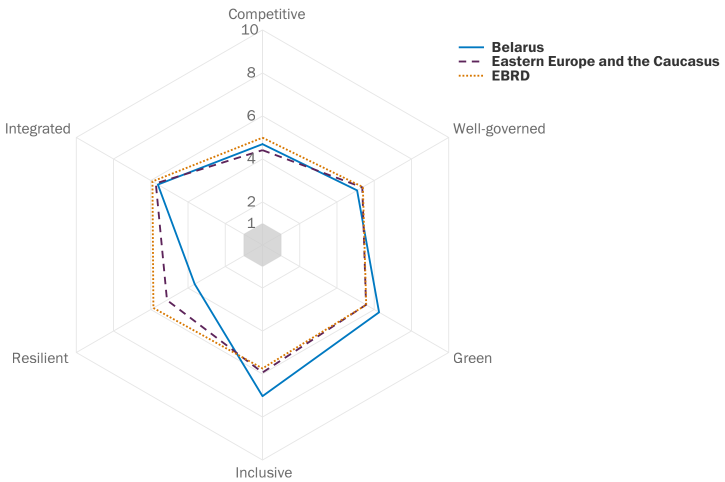
Macroeconomic performance

GDP growth has rebounded after two years of recession. In 2017, GDP expanded by 2.4 per cent, driven mainly by external demand and a recovery in household consumption. Growth of exports in volume terms accelerated from 2.6 per cent in 2016 to 7.3 per cent in 2017. Gross value added (GVA) of manufacturing, the economy's largest sector accounting for over one-fifth of the entire GDP, grew by 6.1 per cent in 2017. Following two years of contraction, household consumption grew by 4.6 per cent supported by a 7.5 per cent increase in real wages in 2017. The low comparison base resulting from the 2015-16 recession also helped boost the 2017 output growth rate. GDP growth is estimated to have gained pace to 3.7 per cent year-on-year in the first nine months of 2018. All main sectors except agriculture recorded positive growth rates in this period.

Low inflation and a stable exchange rate attest to well-calibrated macroeconomic policies. Near-term balance of payments pressures have abated as the authorities resolved the energy dispute with Russia in the first half of 2017 and repeatedly tapped the international capital markets, including the most recent Eurobond issuance in February 2018 for the total principal amount of US$ 0.6 billion. International reserve assets increased to US$ 7.2 billion in the beginning of September 2018, covering approximately 2.2 months of imports, still relatively low compared with external financing needs. The current account deficit shrank from 3.3 per cent of GDP in 2016 to 1.6 per cent of GDP in 2017 on the back of strong export receipts and increased money transfers from abroad. The exchange rate has remained relatively stable since the beginning of 2016. At 6.0 per cent on average in 2017, consumer price inflation was at its lowest level before declining further to 4.8 per cent year-on-year in the first nine months of 2018. The refinancing rate was lowered from 11 per cent at the end of 2017 to 10 per cent in June 2018.

Positive near-term growth prospects are balanced against structural weaknesses. Current forecasts are for economic growth at 3.0 per cent in 2018 and 2.5 per cent in 2019, supported by continued macroeconomic stability and improved external economic conditions. But the longer-term prospects for growth and prosperity depend on the willingness and ability of the authorities to enhance the private sector's role in the economy.

Assessment of transition qualities (1-10)



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Major structural reform developments

The authorities have been focusing on improving governance and quality of management in SOEs. In September 2017, the state-owned road-management holding company Belavtodor was chosen for the implementation of a pilot commercialisation project. It implies the establishment of a model state holding company based on the OECD principles via a corporate governance action plan. Work is under way to enhance the capacity of the state property fund in order to create a commercially sound holding structure for state assets.

A set of measures was adopted to promote the development of the IT sector. A presidential decree on digital economy development was adopted in December 2017. The decree prolongs the special taxation and regulation regime of the High-Technology Park (HTP) until 2049. It expands the range of eligible activities that are subject to preferential treatment, including marketing, advertising and other services related to developed software products. The new decree has introduced a liberal legal framework for Blockchain technologies and legalised so-called smart contracts in Belarus. Financial and legal tools have been introduced to stimulate venture capital transactions. Procedures for recruitment of foreign specialists by HTP residents have been simplified. The residents of the park have been allowed to sponsor and provide vocational training programmes. Established in 2005, the HTP hosted close to 200 resident companies as of September 2018, more than half of which were foreign-owned or joint ventures. In 2017, production and sales revenues of HTP resident-companies increased by 21 per cent and amounted to approximately US$ 1.1 billion, with an export share of approximately 92 per cent. The ICT sector accounted for approximately 5.0 per cent of GDP in 2017.

Monetary policy and banking supervision frameworks have been improved. The policy of the National Bank of the Republic of Belarus (NBRB) to move from targeting exchange rate stability to a fully fledged inflation targeting regime is on track. The monetary authorities have started to focus on managing the overnight interbank market interest rate instead of the rouble monetary base. The transparency and effectiveness of the public communications by the NBRB have also improved. Monetary policy objectives and their implementation are clearly communicated on the recently upgraded NBRB website. From January 2018, Belarusian banks are required to maintain capital ratios compliant with Basel III framework. In January 2018, the NBRB also published the list of systemically important banks which are required to maintain additional capital buffers.

Measures were taken to promote de-dollarisation and gradually liberalise foreign exchange regulations. In January 2018 the NBRB increased the reserve requirements for deposits in foreign currency from 15 per cent to 17 per cent. This was the third consecutive increase since the beginning of 2017, when the ratio stood at 7.5 per cent. To discourage foreign currency lending to unhedged borrowers, a higher reserve requirement was introduced for such loans. To incentivise lower interest rates on local currency loans, higher reserve requirements were imposed on rouble loans with an interest rate above the specified threshold, which is linked in turn to the NBRB overnight rate. The requirement for the mandatory sale of foreign currency proceeds was lowered from 20 per cent to 10 per cent in October 2017, and then abolished in August 2018.