# BELARUS

## Highlights

- **Economic growth has sharply decelerated.** After reaching a peak of 5.3 per cent in the first quarter of 2018, growth has since decelerated to 0.9 per cent year-on-year in the first half of 2019.
- **Short-term risks to the outlook have increased.** The authorities are working on a response to the adverse supply shock coming from the new energy taxation system that is being introduced by Russia.
- **The business environment is improving.** The authorities have made progress in creating a better business environment for private enterprises, but the commercialisation and privatisation of state-owned enterprises (SOEs) are lagging behind.

## Key priorities for 2020

- **Commercialisation of the state sector needs to be scaled up.** Achievements of particular SOEs need to be replicated more widely, and the application of corporate governance principles, as created by the Organisation for Economic Co-operation and Development, will be necessary to improve the quality of management in the state sector.
- **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 should be followed by good-quality equity participation of private investors. The phasing out of state lending programmes also needs to continue.
- **The authorities need to undertake benchmark-setting privatisation in the real sector.** A successful entry of a credible international investor in one of the several non-strategic SOEs whose preparation for privatisation has been jointly supported by international financial institutions (IFIs) would set a precedent that could be replicated by other SOEs.

### Main macroeconomic indicators %

| | 2015 | 2016 | 2017 | 2018 | 2019 proj. |
|---|---|---|---|---|---|
| GDP growth | -3.8 | -2.5 | 2.5 | 3.0 | 1.3 |
| Inflation (average) | 13.5 | 11.8 | 6.0 | 4.9 | 5.4 |
| Government balance[1]/GDP | -3.0 | -1.7 | 0.3 | 2.4 | -1.3 |
| Current account balance/GDP | -3.3 | -3.4 | -1.7 | -0.1 | -0.9 |
| Net FDI/GDP [neg. sign = inflows] | -2.7 | -2.4 | -2.2 | -2.3 | -2.5 |
| External debt/GDP | 67.8 | 78.6 | 72.8 | 65.9 | n.a. |
| Gross reserves/GDP | 7.4 | 10.3 | 13.4 | 12.0 | n.a. |
| Credit to private sector/GDP | 22.8 | 20.4 | 20.9 | 21.5 | n.a. |

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

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## Macroeconomic performance

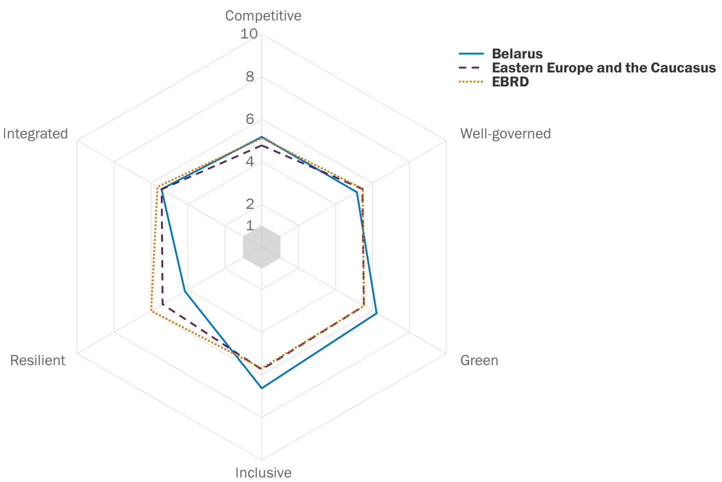
**Economic growth accelerated to 3.0 per cent in 2018, driven by domestic demand, but net exports continued to have a negative impact.** Household consumption recorded robust growth of 8.3 per cent, benefiting from a strong increase in disposable incomes, while investments in fixed assets increased by 4.9 per cent as a result of growing external and internal demand. Value added increased in all large sectors except agriculture, where it declined by 4.0 per cent. The growth rate reached a peak in the first quarter of 2018 and then started decelerating. This trend continued in 2019 when real gross domestic product (GDP) increased by 0.9 per cent year-on-year in the first half of 2019 on the back of stagnation in the manufacturing sector. Inflation fell below 5.0 per cent in 2018 for the first time since the country became independent, but has since risen to 5.9 per cent in January to August 2019 year-on-year on the back of increases in regulated prices and tariffs. The latest data for September show inflation slowing down to 5.3 per cent year-on-year due to decelerating core inflation and a reduced contribution from regulated prices and tariffs.

**The current account is close to balance and foreign reserves have increased.** The current account deficit dropped to just 0.1 per cent of GDP in 2018 as a result of an increase in the export of services and the surplus of secondary incomes due to a transfer of duties on energy resources from Russia. The size of the deficit remained more or less unchanged in the first half of 2019. International reserves have increased by US$ 1.7 billion year-on-year to US$ 8.9 billion in September 2019, but coverage is still relatively low, at just two and a half months of imports.

**New energy tax arrangements in Russia may affect Belarus's fiscal position and competitiveness.** Belarus has long benefited by importing oil from Russia without export duty within the Customs Union of the Eurasian Economic Union, processing it in its own refineries and exporting refined products to Europe, while collecting the oil export duty as income in its own budget. A new energy taxation system is being introduced by Russia, the so-called "tax manoeuvre", which will gradually replace the oil export duty with an extraction tax from 2019 to 2024. According to the Belarus Ministry of Finance, the lost budget revenues will rise from 0.4 per cent of GDP in 2019 to 4.0 per cent in 2025, when the new system is fully in place. In addition, the new system may negatively affect the competitiveness of the oil refineries, which account for almost 20.0 per cent of total exports. The authorities are currently negotiating a new energy agreement with Russia, with the aim of compensating for the losses that are expected to be incurred by the tax manoeuvre.

**Positive growth is expected to continue but short-term risks to the outlook are rising.** GDP growth is forecast at 1.3 per cent in 2019 and 1.2 per cent in 2020. However, risks are on the downside: the economy is particularly vulnerable to the external shock coming from the aforementioned tax manoeuvre. The current model of economic growth is stalling, and recharging will require an increased appetite for, and the implementation of, reforms.

Assessment of transition qualities (1-10)

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## Major structural reform developments

**A new government programme of activities in 2018-20 was adopted.** The programme, which was approved at the end of October 2018, targets improvements in the oversight, corporate governance and financial discipline of SOEs. It also aims to improve the investment climate by streamlining the regulatory framework, facilitating structural transformation towards a service-led economy, in particular in the information technology sector, and promoting trade diversification.

**The authorities have taken steps to improve the business environment.** A joint working group, consisting of members of the government and the business community, prepared a new edition of the Tax Code of the Republic of Belarus, which entered into force on 1 January 2019. The amendments aim to reduce the tax burden on businesses and create favourable conditions for investments. According to the authorities, the updated edition includes simplification of the tax administration, measures to facilitate interaction between taxpayers and tax authorities and provisions to soften penalties for tax wrongdoings. In addition, legislative changes adopted in December 2018 and signed by the President in January 2019 decriminalised some aspects of business operations, alleviated penalties for selected economic crimes, in particular those for first-time offenders, cancelled the general confiscation of property and increased the amount of damage that falls under the definition of “large” and “especially large” damage.

**Access to finance for small and medium-sized enterprises (SMEs) is being enhanced.** The government launched a credit guarantee fund for SMEs in April 2019. The scheme targets the smaller segment of enterprises, namely those with fewer than 100 employees. It operates through three partner banks, and the fund guarantees cover for up to 60 per cent of bank loans and leasing contracts to a maximum amount of BYN 134,950 (US$ 64,000). This is an encouraging sign of improving access to finance for SMEs and indicates a move towards more commercially based financing mechanisms.

**Measures were taken to reduce the banks’ excessive risk exposure.** Since 1 March 2019, the National Bank of the Republic of Belarus (NBRB) introduced macro prudential measures aimed at limiting the systemic risk generated by business models of banks with increased risk appetite. Banks setting significantly higher interest rates, compared with a standard risk estimated value, will be obliged to comply with higher capital adequacy requirements, generate special provisions for possible losses and create a compulsory reserve fund. In addition, as part of the gradual phasing out of direct lending, the amount of direct lending to the real sector in 2019 was reduced by 35.0 per cent year-on-year to 0.6 per cent of GDP.

**Foreign exchange liberalisation gradually continued.** Effective from March 2019, current currency transactions between residents and non-residents are not subject to any restrictions. Capital transactions remain subject to a registration requirement but no longer require approval from the NBRB. Currently, all transactions between residents and non-residents are classified as either current or capital transactions. The former include those related to trade, intellectual property, provision of services, operational or financial lease of immovable property, transfer of income investments and similar activities. All other business deals are classified as capital transactions.

**Disbursements by the Eurasian Fund for Stabilisation and Development (EFSD) continued unevenly.** The EFSD initiated a financial loan in 2016 for the overall amount of US$ 2 billion to be disbursed in seven tranches until 2018. Disbursements so far have been subject to occasional delays. The sixth tranche, of US$ 200 million, was disbursed in October 2018, bringing total disbursements to US$ 1.8 billion. In January 2019, the EFSD extended the date of credit availability.