




Structural Transformation for Productivity and Competitiveness of Belarusian Economy

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Belarus short-term economic outlook remains challenging but the country has a window of opportunity to address structural constraints in the economy, strengthen the macroeconomic foundations needed to escape from the current low growth trap, says a World Bank Economic Update for Belarus. Economic growth in Belarus is expected to accelerate modestly to 1.5 percent in 2014, with a slight improvement to 1.8 percent in 2015, driven by increasing domestic demand and improving net exports. However, the countrys economy is facing structural challenges, while the external environment remains clouded by weak growth prospects in Russia and Ukraine. Fiscal discipline has been maintained and external imbalances were reduced. However, exchange rate pressures and the problem of declining foreign exchange reserves persist. The current account deficit is expected to narrow to 6.3 percent of GDP in 2015, but could deteriorate slightly in the outer years. Macroeconomic policies should respond to the new environment. It is important to continue managing of credit and wage growth as they were deemed to be significant causes of instability in the past, stressed Sebastian Eckardt, World Bank Senior Economist for Belarus. In a Special Focus Note on Turning around the Utility Sector, the World Bank outlines the importance of optimization of utility sector tariffs in line with the Governments strategy to increase Belarus energy independence and promote efficient use of energy resources. Despite nominal increases, residential gas, electricity, and district heating tariffs have not kept pace with rising production costs, undermining financial viability of the utility sector. Moving tariffs to full cost recovery could result in cumulative fiscal and quasi-fiscal savings equal to about 2.5 percent of GDP. The World Bank suggests that these savings could be reallocated to different use, including targeted social assistance to mitigate the social impact of increased tariffs on poor and vulnerable households, for investments in energy efficiency, or to allow for reductions in industrial utility tariffs. "It is important to have a consistent and comprehensive plan of structural reforms to boost productivity and make non-commodity exports more competitive. We believe that appropriate policy decisions today could reshape the long-term trajectory of the economy. The Bank works with the Authorities closely to advise on the design and implementation of structural transformation in a sustainable and inclusive manner, stressed Mr. Young Chul Kim, World Bank Country Manager for Belarus. Since the Republic of Belarus joined the World Bank in 1992, lending commitments to the country have totaled US\$1.14 billion. In addition, grant financing totaling US\$25 million has been provided to programs, including those with civil society organizations. The current investment lending portfolio includes five operations for a total amount of US\$648 million. The World Bank
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