

Unleashing Belarus' Sustained Growth Potential

The World Bank

Minsk August 25, 2009

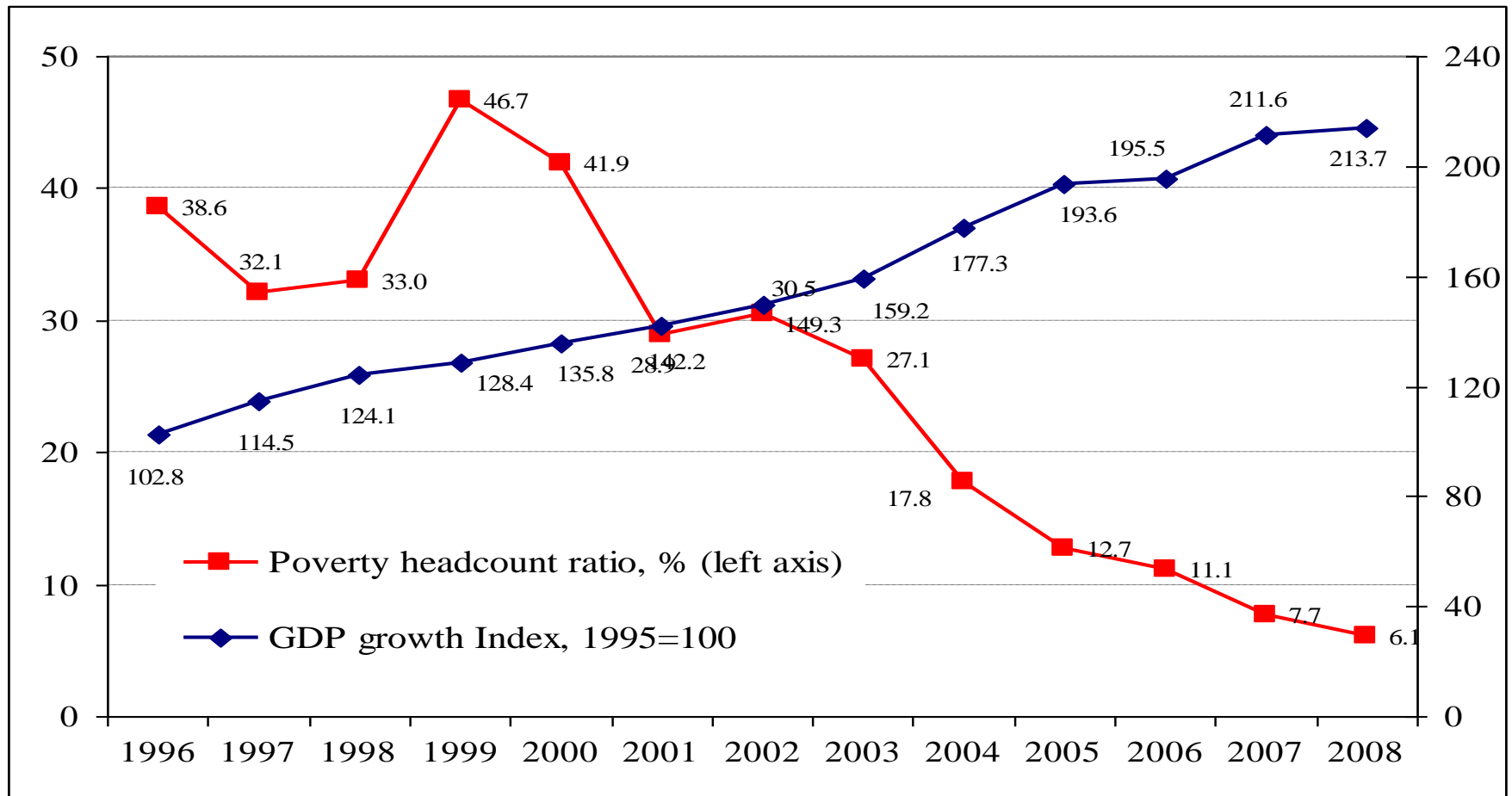
Outline

- **Background: CEM 2005**
- **Productivity Trends and Issues**
- **Labor Skills**
- **Export Sophistication & structural transformation**
- **Structural Reforms to Adjust the Growth Model**

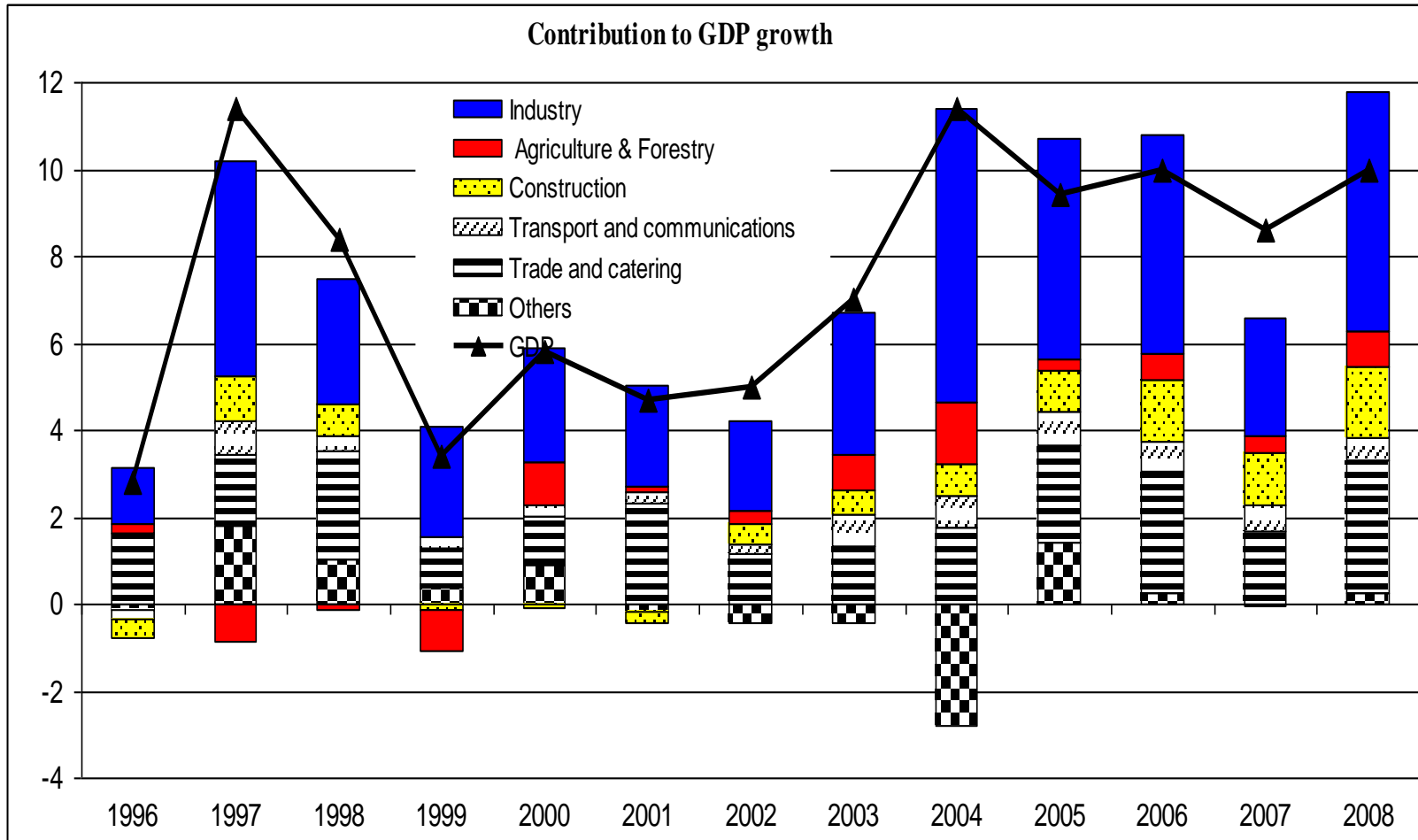
Background CEM 2005 findings

- Belarus' growth model was not static since the 1990s
- Earlier growth drivers were eroding
- The economy was highly vulnerable to external shocks
- A sustained growth model would require reform

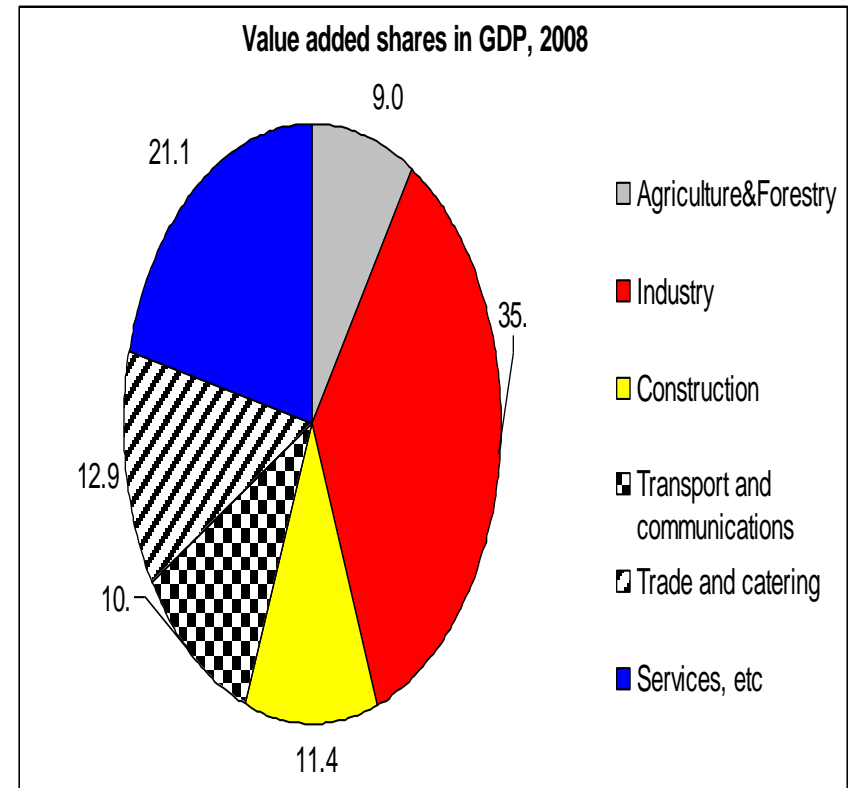
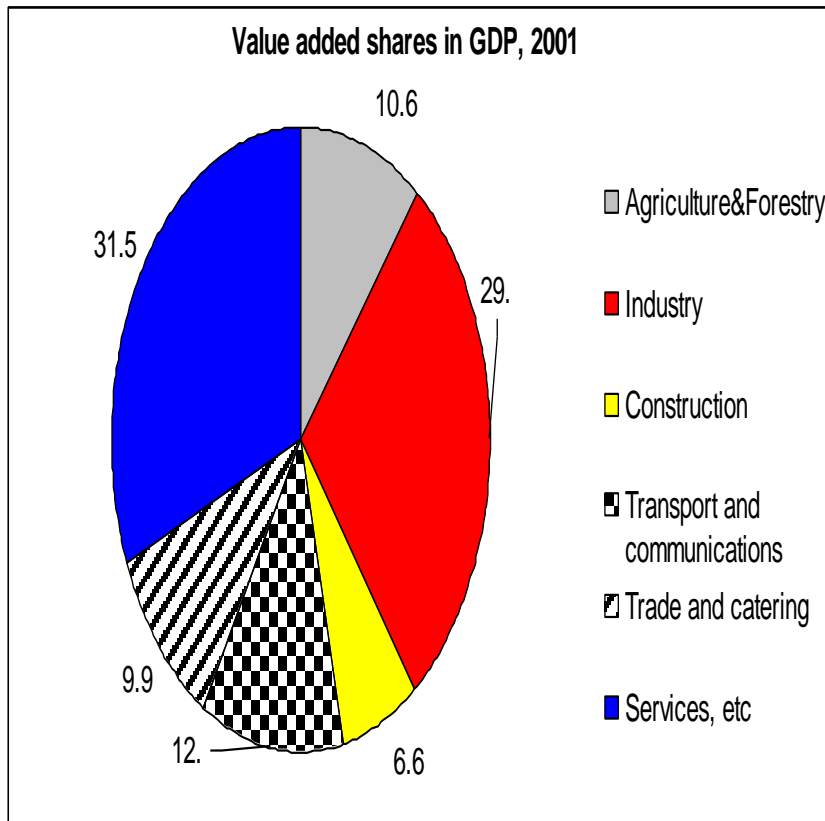
The recent growth model delivered some of the largest cuts in poverty in the region...BUT



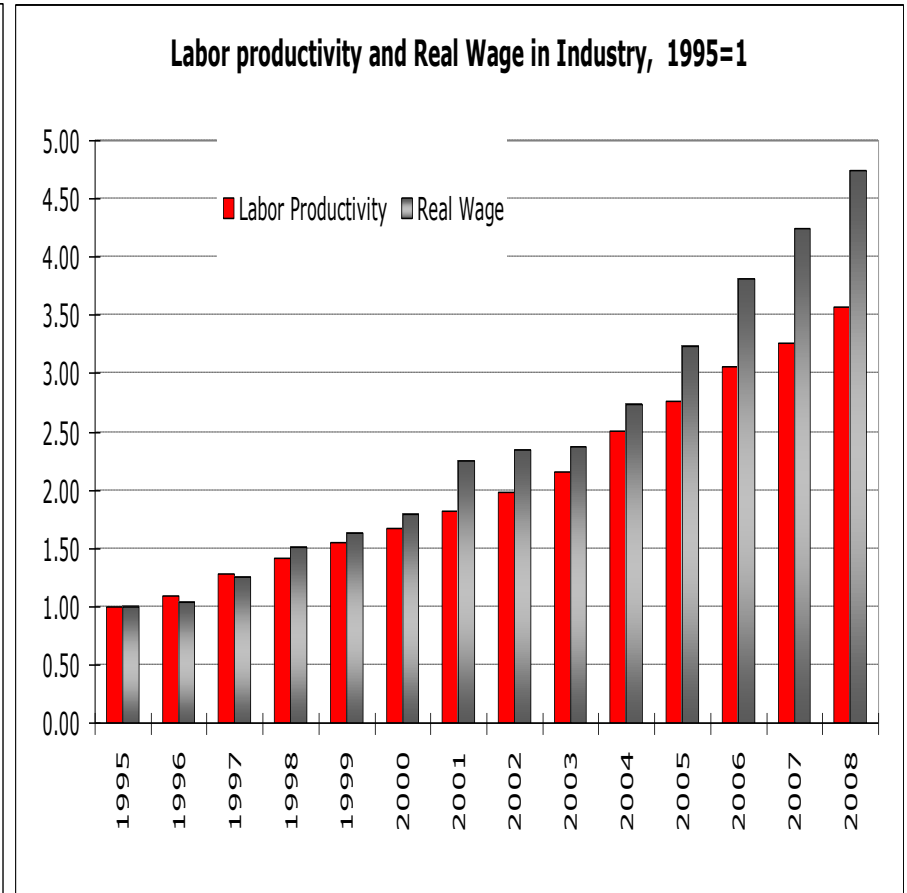
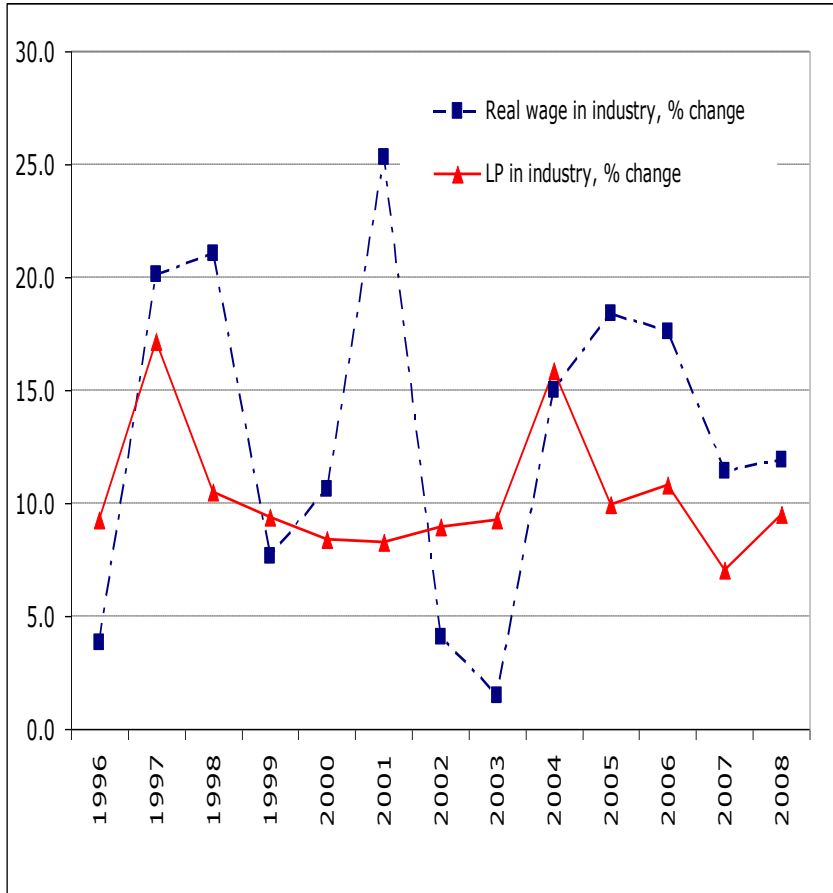
Growth continues to be industry-led



In tandem, the service sector shrank potentially creating constraints for future growth

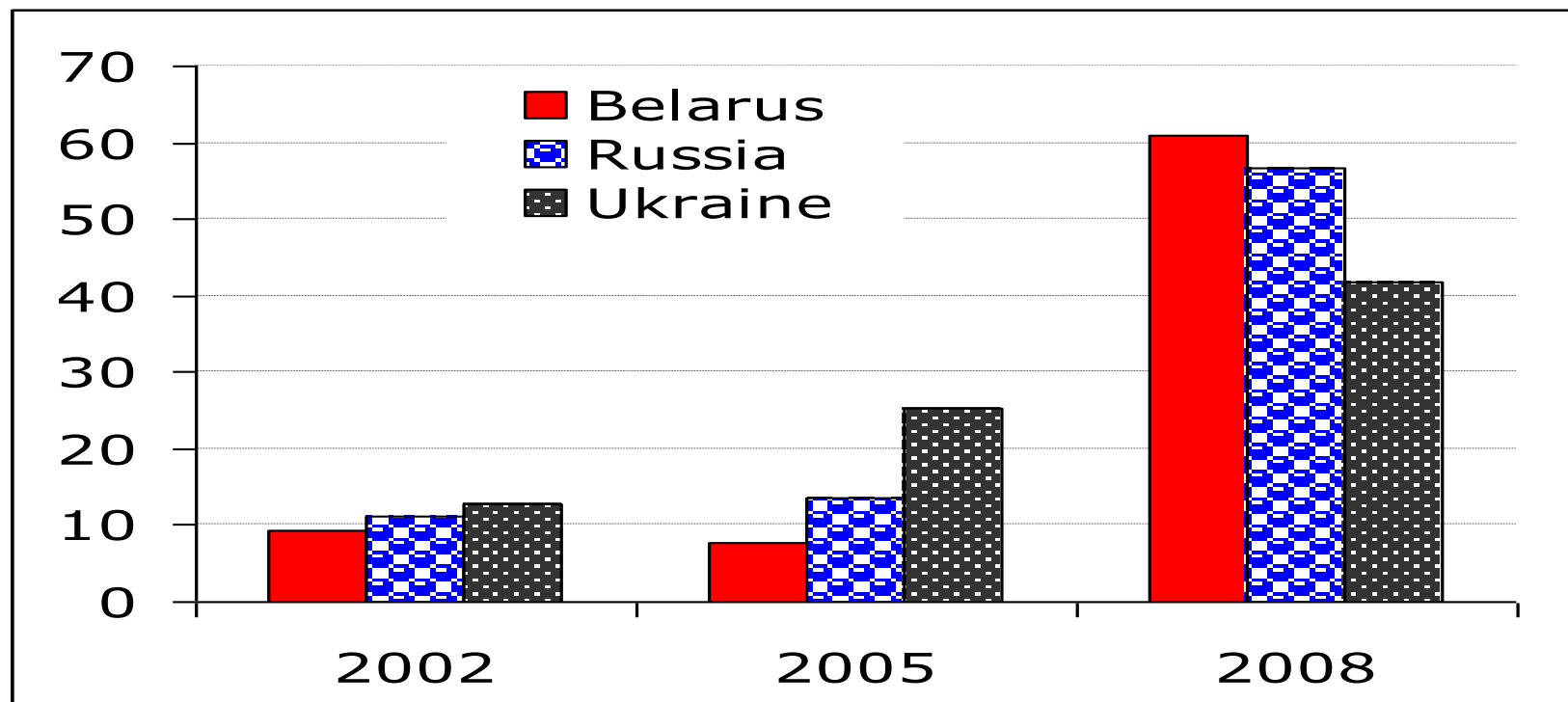


Real wage growth has been outstripping labor productivity growth



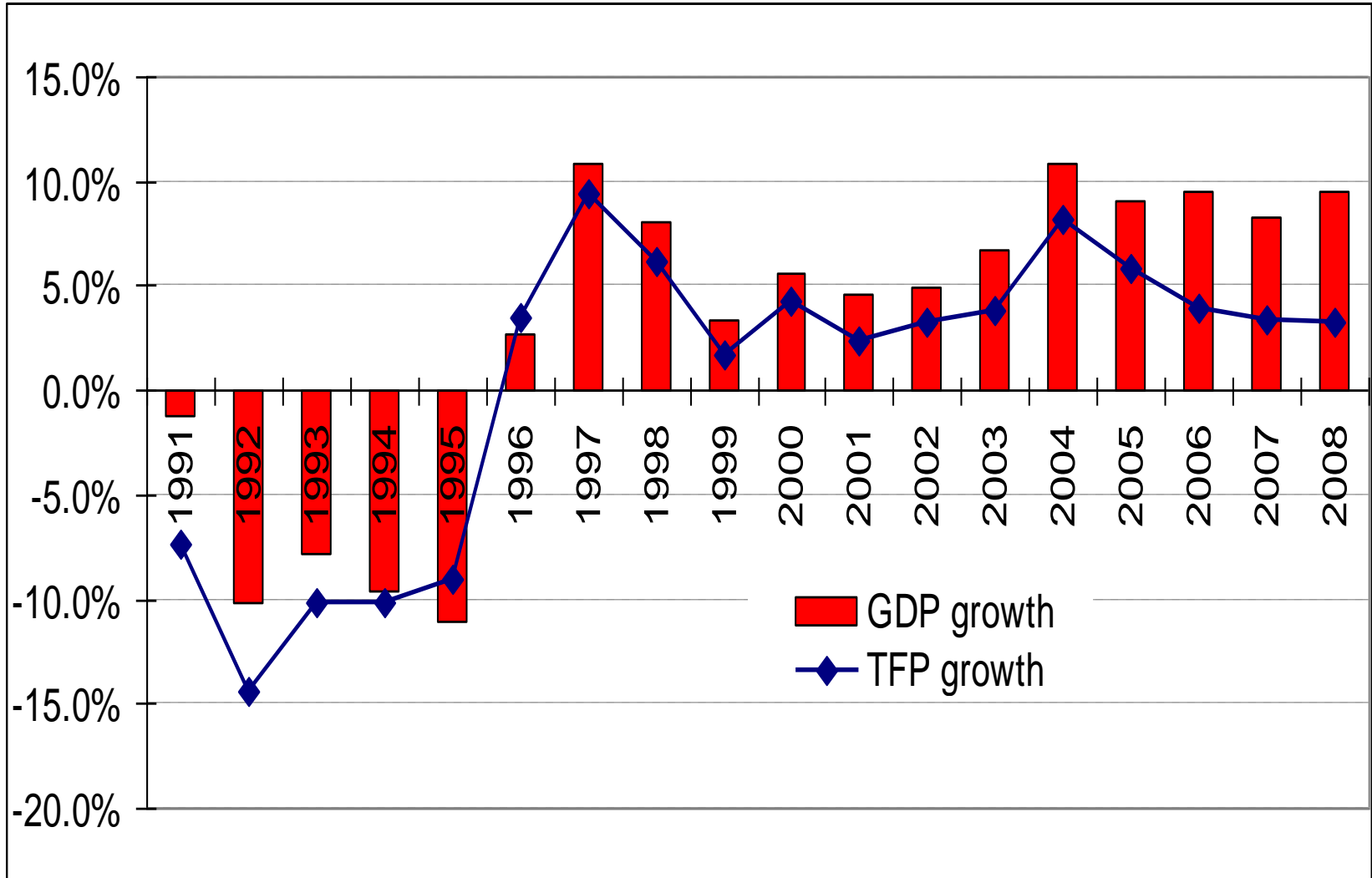
Labor skills increasingly a binding constraint to firms' growth

% of firms indentifying labor skill levels as major constraint for firm growth

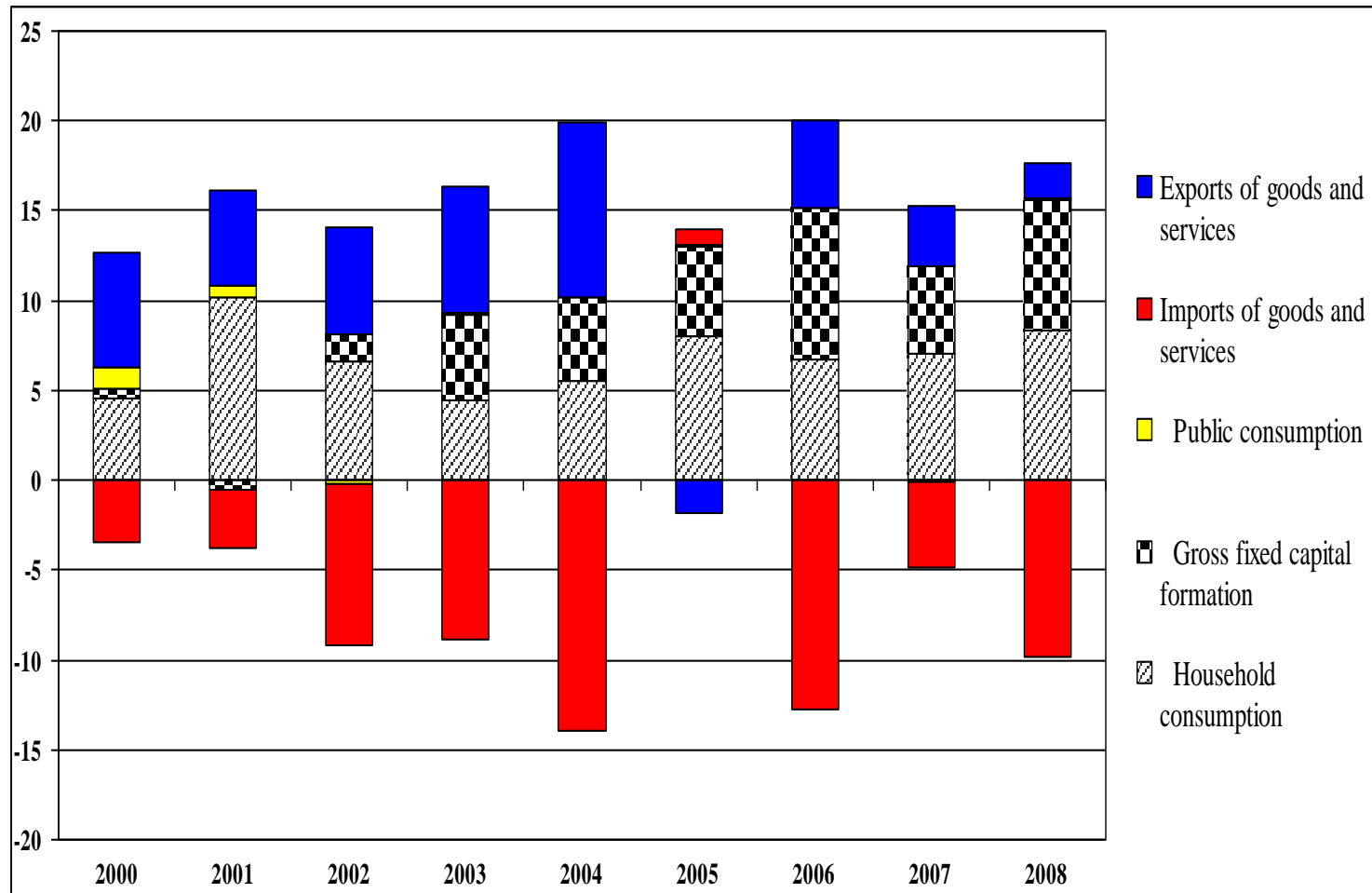


Source: Bank staff calculations using BEEPS.

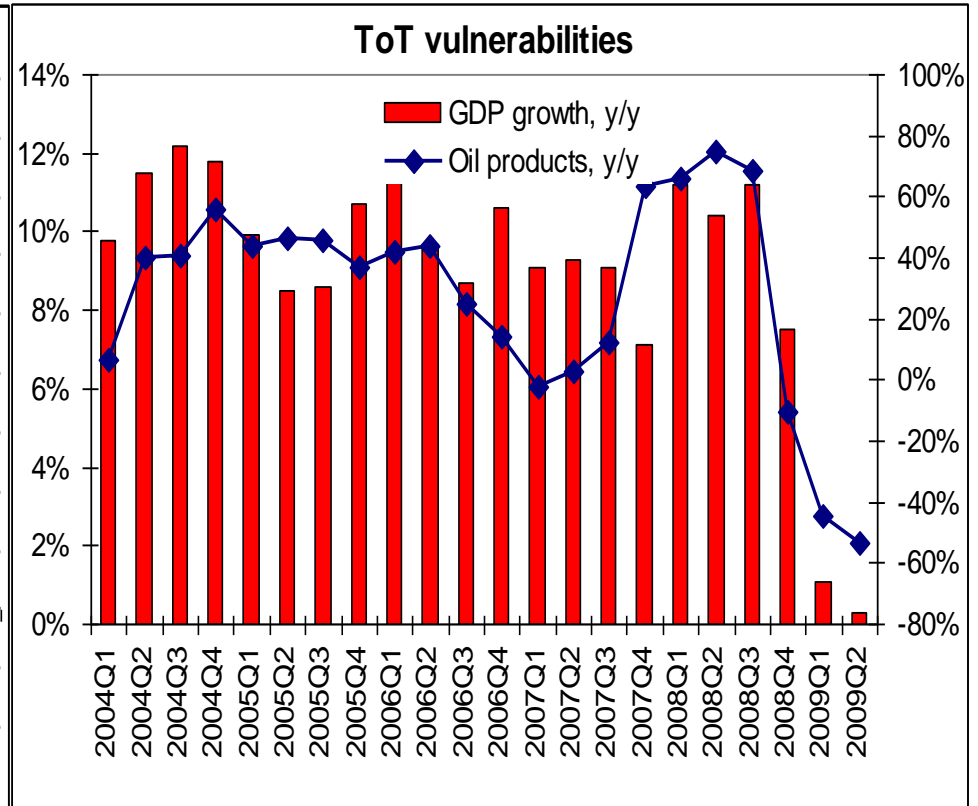
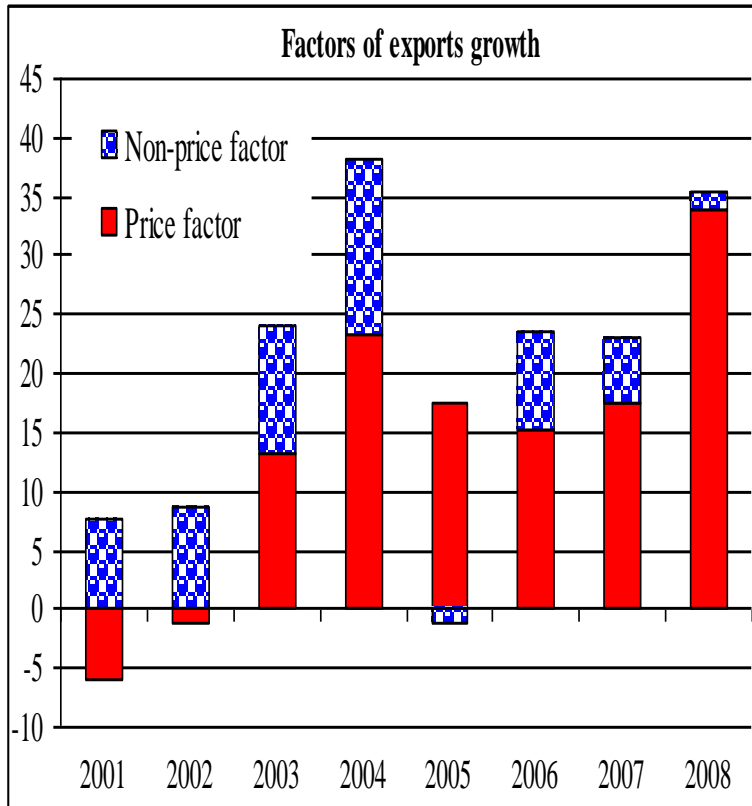
TFP growth has been slowing...



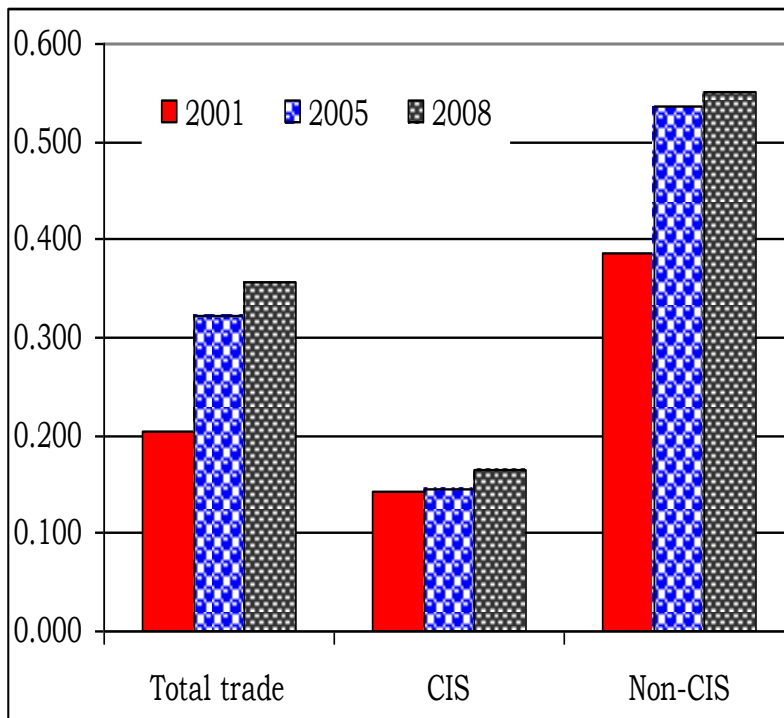
.....growth is less export driven since 2006



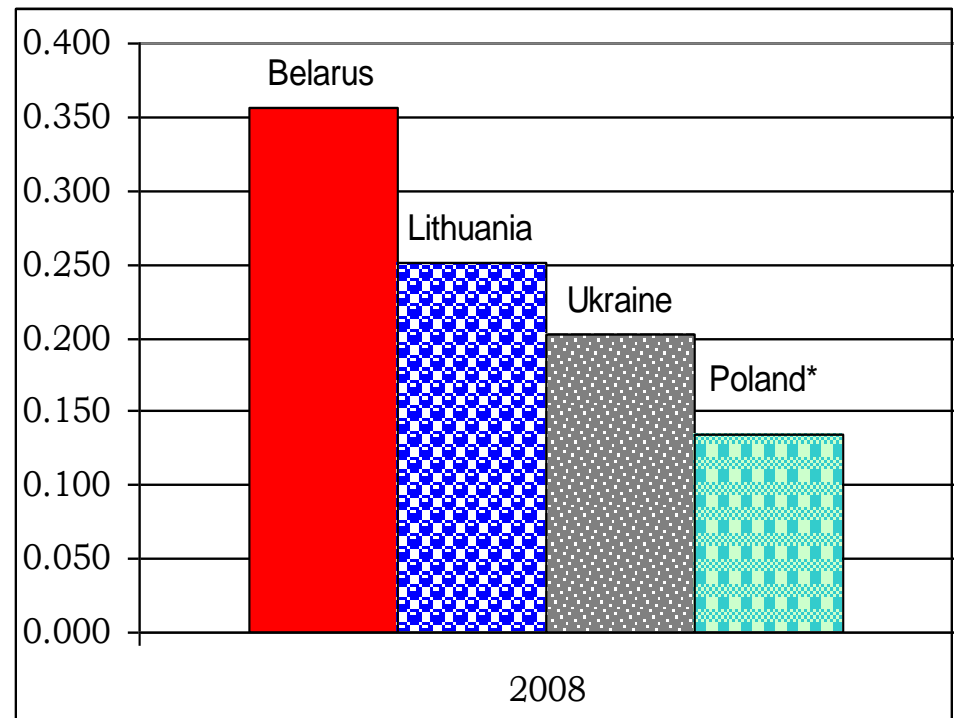
Export growth mainly driven by prices



Product export concentration increased as a whole, including for up market destinations

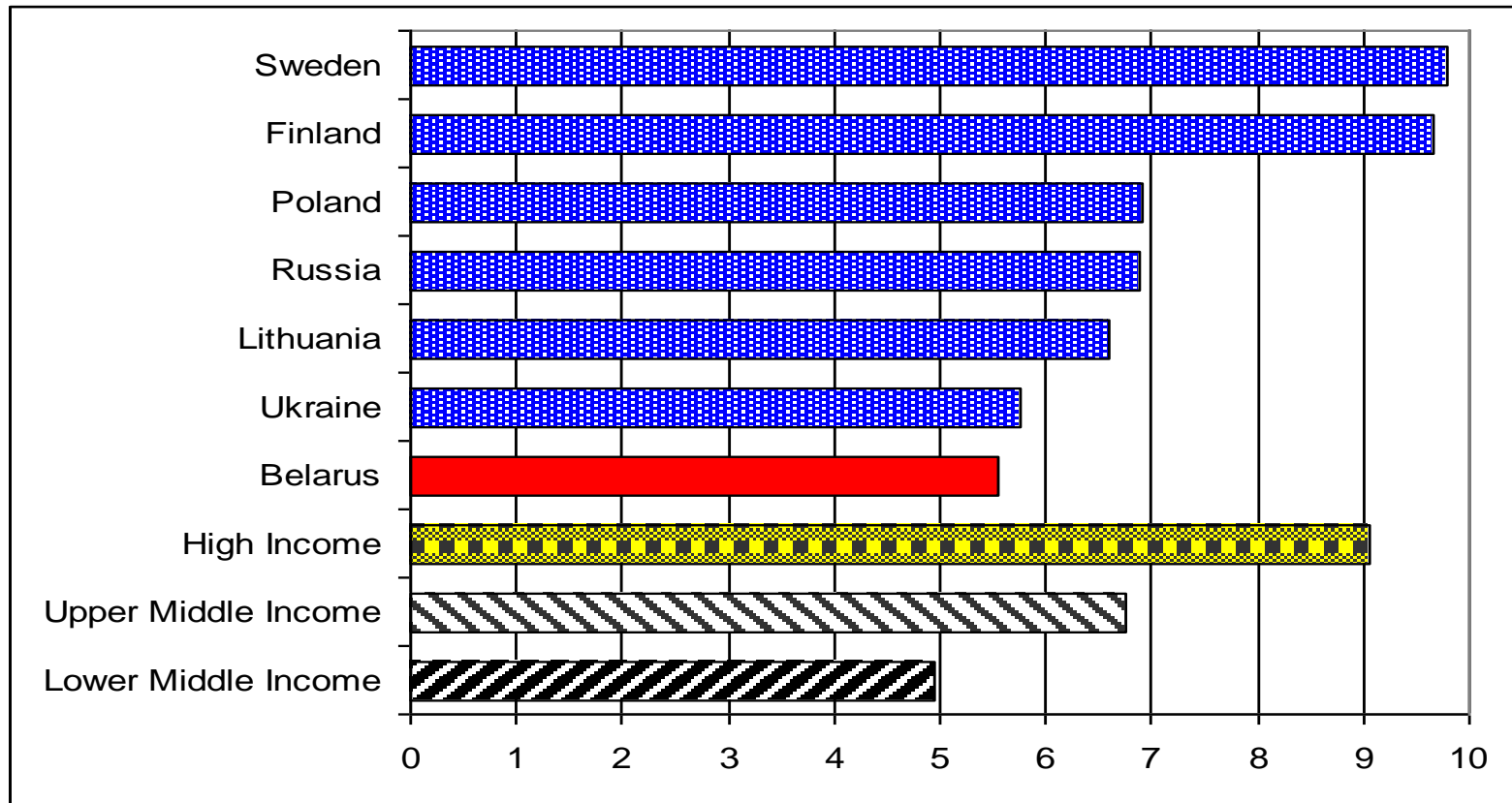


Hirshmann Index



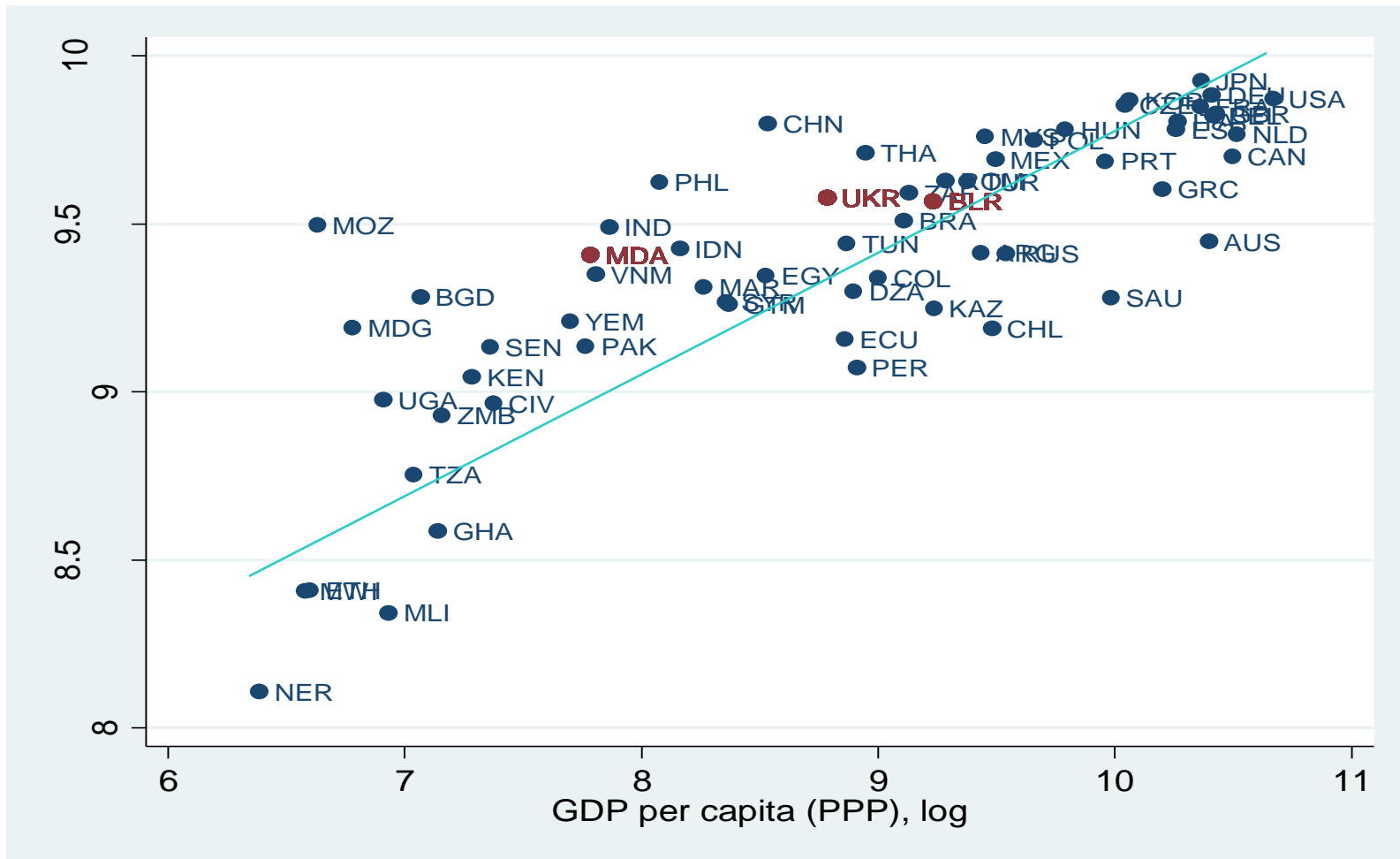
* Poland 2007

Technology adoption seems low and slow in Belarus

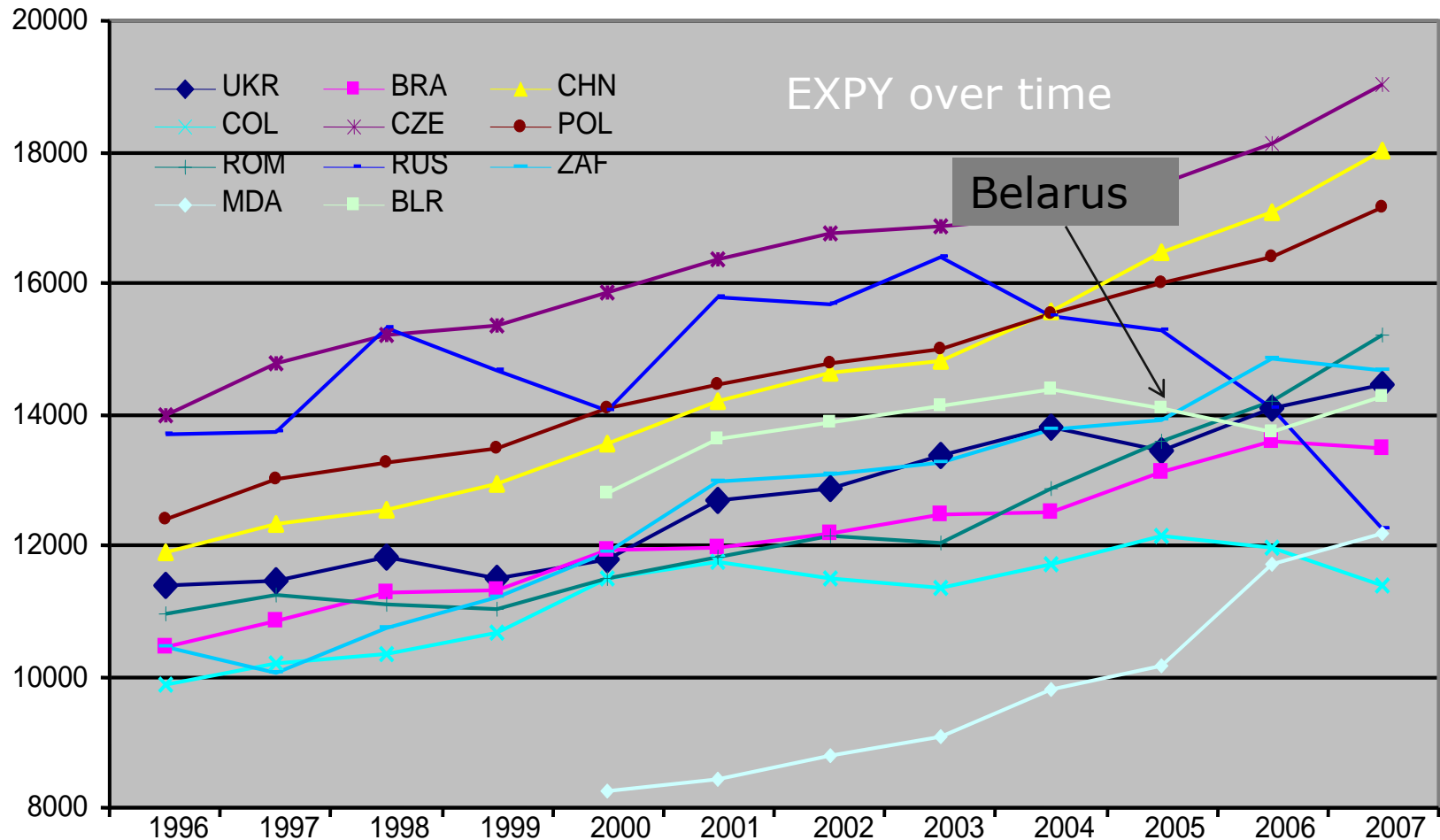


Economy's innovation index (WB)

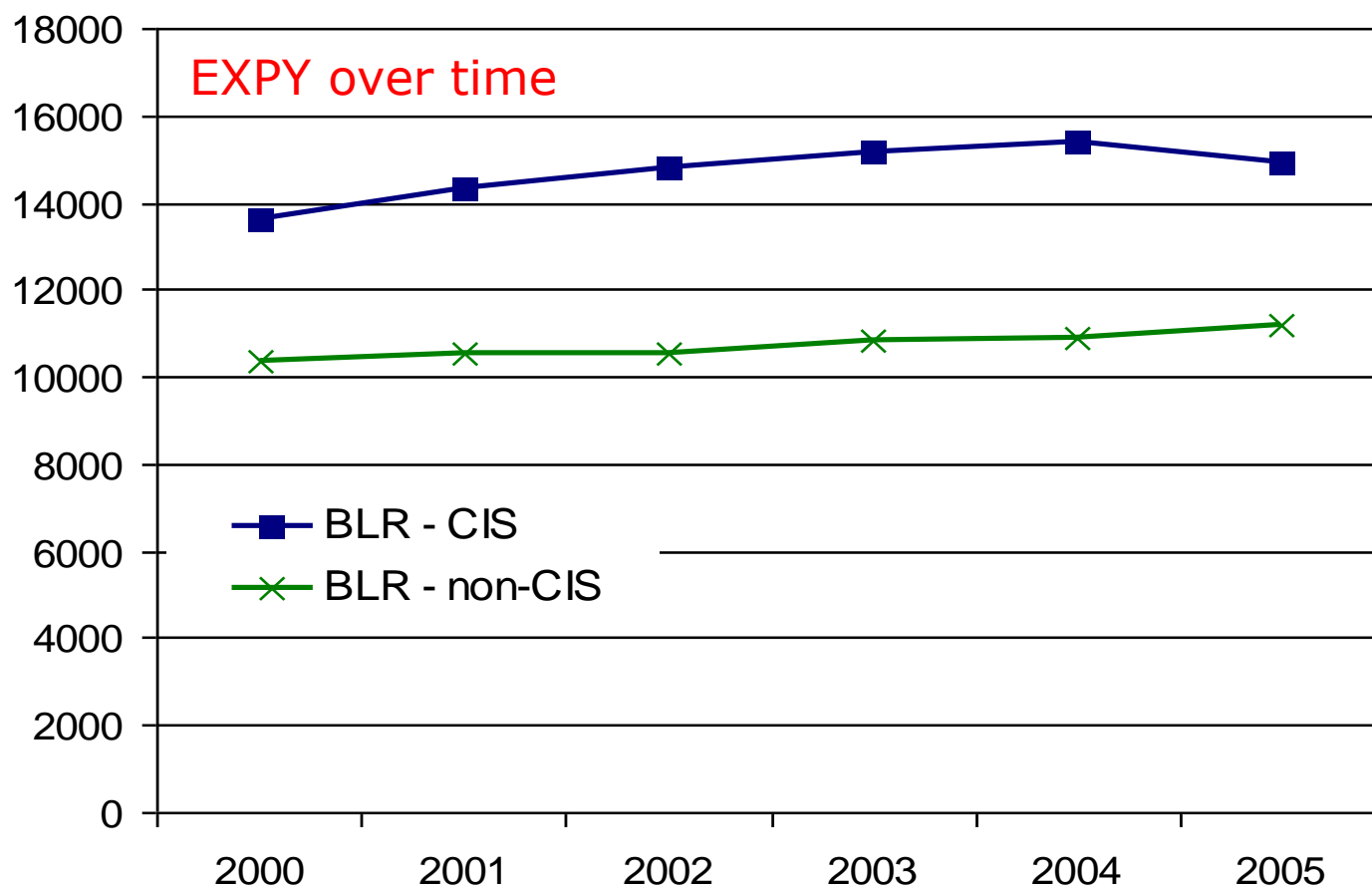
Export Sophistication and structural transformation: why are they important?



Belarus' improvements in the sophistication of its export basket have been modest.



The basket of products exported to CIS countries remains more sophisticated than that exported to non-CIS countries



How Belarus' Economy can Regain and Sustain Growth in the Medium Term?

- Capital markets likely to remain risk averse and export demand likely to grow slowly over the medium term.
- Growth will have to come from:
 - Increased productivity
 - Structural transformation: product sophistication, export diversification and exports to new markets
 - Increased FDI (that also achieves Tech Transfer)
→ Private sector expansion.
- All the context of adequate fiscal, monetary and financial sector policies.

How this translates into action: re-engineering the growth model

- Reducing costs of entry; and allowing exit
- Reducing costs of private sector operation and fostering competition
- Reducing tax burden coupled with a streamlined expenditure side—in a fiscally manageable way
- Getting prices right
- Privatization and SoE restructuring yes. But through a transparent and well-structured process that assures good value for the state and buyers that expand v.a (this may imply gradualism)
- Gradual reduction of NTB
- Moving to different equilibrium in the production possibilities frontier (could be gradual; costs can be mitigated; benefits would be significant)