Board Meeting of January 28, 1999
Statement by Andrei Bugrov

Belarus: Country Assistance Strategy

This CAS is a very interesting case for several reasons. First, Belarus has recently demonstrated a very strong economic growth. Second, economic developments in Belarus are much more impressive than in many contracting or stagnating economies in transition. This deserves a special in-depth study. Third, there exists a clear disagreement between the Bank and the GOB on many issues of economic policy. Annex A1 to CAS containing a memorandum from the GOB is quite illuminating. So it seems that the Belarus case may be a good test for the Bank’s renewed responsiveness to client’s needs, partnership and ownership.

Much to my surprise the CAS before us fails to meet this test. To illustrate this let me point out that it is almost exclusively the shortcomings and negative aspects of Belarus development that are highlighted throughout the report. The staff give a very short script to many positive issues (e.g., firm fiscal stance, disciplined governance, strong government’s commitment to the social issues and resulting social cohesion, low indebtedness, and so on) and even try to ridicule them. Even the strong GDP growth over the recent years, although grudgingly acknowledged, is consistently dismissed as temporary and rather irrelevant. An unfamiliar reader may get an impression that Belarus remains an island of old state-planning system, which it obviously is not.

The paper says almost nothing positive about the liberalization of bilateral trade and other economic relations between Russia and Belarus. It is astonishing to see neither major discussion of the tragic Chernobyl disaster which is the paramount social issue in Belarus nor the government’s effort to deal with its effects.

I have had extensive discussions with the Management about the Belarus CAS, and I am grateful for clarifications given to me personally as well as those provided at the recent informal briefing. However I am still left with the impression that Belarus is considered to be ineligible even for project lending. Indeed the informal briefing added a number of new concerns.

Specifically, as the Fund representative explained, the Fund and Belarus are now fully engaged in the preparation of the CCFF program to be approved approximately in March. Moreover, it is expected that a
full-fledged stand-by arrangement is likely to follow shortly, probably no later than in May-June. Thus it is very possible that in a few months Belarus will be eligible for adjustment, let alone investment, lending.

The Fund and Belarus seem to have already reached an understanding on the parameters of exchange rate liberalization and probably some other reforms as well. Therefore at the agreed point in time the Fund will be prepared to launch disbursements while we will commit ourselves to nothing more than the commencement of new CAS negotiations. I observe this asymmetry between the Fund and the Bank with utmost concern. Frankly, I find it unsatisfactory that full foreign exchange liberalization is applied in the CAS as the trigger condition for merely starting negotiations on the next CAS and a minimal lending program. Surely liberalization is a process, not a single point, and the Bank would do well to get involved while this process is still going on.

The update note on the most recent developments (circulated on January 21, 1999) only strengthens my point. It is reported that Belarus exports in November were already at the July level, thus making August-September drop quite temporary. Exchange rate realignment is also well underway.

Incidentally, these developments underscore major specific aspects of the Belarus reform. It is time to stop talking about the "puzzle" of Belarus statistics which continue to record GDP growth. This growth is clearly export-driven. And it is well known (for instance, from the experience of some Asian countries) that strong orientation toward exports can offset some initial overregulation of domestic markets. It may be said that export-oriented firms adjust their behavior according to external demand signals and external market price structure while still facing some distortions on the domestic market. While I would agree that total and comprehensive liberalization on all fronts is desirable as a matter of ideal principle, in real life the governments formulate their preferences in line with prevailing political, social, and economic circumstances. And we all know that export orientation as a conscious strategy is among the most successful ones applied in this century.

One may ask whether the strong emphasis on Russian trade adds an element of uncertainty to the export strategy of Belarus. I would answer that, while it is still a bit early to discuss the practical consequences of the recent Declaration on the establishment of further unification, one thing is beyond doubt: both countries are committed to maintain close political and economic relations. Further economic integration with Belarus is not a matter of transitory political interest in Russia; it is here to stay. Therefore, given the relative size of the Russian market, Belarus is well positioned to fortify her export capacities and diversify them. In fact, such diversification is already here, for Belarus exports to non-CIS countries has doubled over the last three years.

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In view of all these considerations, I think that the best thing we can do is to restart our contacts with Belarus immediately, and to prepare a full-fledged CAS as soon as technically possible.