

Belarus' Efforts to Reduce CO2 Footprint Found Little Support



The international community showed little interest in the Belarus-initiated amendment to the Kyoto Protocol at the United Nations Climate Change Conference in Copenhagen.

The amendment would enable Belarus to participate in the Kyoto Protocol's Clean Development mechanism – Belarus' main mechanism of international technology financing which provides carbon dioxide low emission. The document needs to be ratified by 75% of Parties (or 132 countries) to enter into force. The Belarusian amendment has been ratified only by 18 countries so far.

Belarus hopes that the new agreement will help create mechanisms of the fair distribution of available financial resources and improve the terms of transfer of advanced technologies to mitigate the climate change and adapt to it.

At the second conference of the parties to the Kyoto Protocol, Belarus voluntarily undertook extra obligations to reduce the carbon footprint, but its inability to access to flexibility mechanisms of the Kyoto Protocol puts it at a disadvantage in comparison with other Annex I countries.

By 2020 Belarus plans to reduce the greenhouse emissions by 600 million tons in the CO2 equivalent. Its contribution to reducing greenhouse emissions includes re-swamping degraded peat bogs. The country is also financing the research into the wind potential of some 30 areas.

Alexander Grebenkov, a climate change expert, said that “[f]rom 1995 to 2008 Belarus reduced the greenhouse gas emissions by 134 million tons in the CO2 equivalent. From 2008 till 2010 we are going to cut the emissions by another 600 million tons.” The cuts of greenhouse gas emissions could be bigger if the country got access to the new technologies and mechanisms within the framework of the Kyoto Protocol.

Belarus acceded to the Kyoto Protocol in 2005, and the amendment was negotiated at the November 2006 meeting of parties. Minsk reiterated its commitment to reducing greenhouse gas emissions past 2012 by undertaking obligations adequate to its capabilities at the 2009 climate change summit.

Read more about Belarus’ plans to reduce the greenhouse emissions at [REVE](#).

The IMF Asks the Belarus Government to Weaken its Grip over the Economy



WASHINGTON – Having concluded another round of consultations with Belarus authorities, the International Monetary Fund urges the Government to sell state assets, curb lending and raise utility prices to cope with the most serious economic crises in more than a decade.

The IMF recommendations sharply contrast with the views of Sergey Tkachev, one of Belarus President’s most influential economic aides. In an interview given earlier this week,

privatization of state property is described as a “craze” and the movement towards economic liberalization as shameful. (The full text of Tkachev’s [interview](#) as well as a [compilation](#) of its most controversial parts are available online in Russian.)

However, privatization and liberalization is exactly what the IMF expects from Minsk. Here is the Concluding Statement of the IMF Mission to Belarus:

Belarus is confronted with the urgent task of overcoming the current economic crisis and longer-term challenge of resuming rapid economic growth. To improve the external current account balance and preserve reserves, the authorities need to maintain a tight macroeconomic policy stance and contain domestic demand. The measures that are needed to achieve this will be an important subject for discussion during the mission’s continuing work on the second review of the SBA. The Article IV consultation discussions have focused on the longer-term issue of how Belarus can resume the growth performance of recent years. The mission believes that high and sustainable growth in future can be achieved with improvements in productivity and increased foreign direct investment. Economic liberalization and accelerated privatization efforts can produce these results. The exchange rate level and regime appear appropriate, but a move to a more flexible system would be warranted once a strong institutional framework is in place to support it.

1. Belarus achieved an average 7.5 percent annual growth in the ten years up to 2008, benefiting from its inherent strengths and favorable external conditions. High investment-to-GDP ratios and productivity gains from a well-educated and disciplined labor force were the main contributors to growth. The favorable external environment—including strong growth in Russia and the rest of the world, easy access to the Russian market, and low-cost energy imports from Russia—also allowed the economy to grow rapidly.

2. However, the global economic crisis has exposed the economy's vulnerability. The external current account has registered a sizable deficit for most of the past decade as savings fell short of investment, leading to precariously low international reserves. Concentrated exports, destined mainly to the Western European market for oil products and the Russian market for non-energy products, were hard hit when demand in both markets fell drastically as a result of the global financial crisis. The situation was exacerbated by reduced subsidies on energy imports.

3. Belarus has made progress in economic adjustment in 2009, which will help restore the country's external stability. The 20 percent devaluation of the rubel against the U.S. dollar and the adoption of the peg to a basket of currencies in early 2009 helped improve Belarus's external competitiveness. The authorities' willingness to widen the band in June and to allow flexibility of the exchange rate within the trading band has made the system better positioned to absorb further external shocks. Disciplined wage policy has also contributed to restoring external competitiveness, and future wage increases should be consistent with maintaining external competitiveness.

4. Nevertheless, boosting domestic demand when the country's balance of payments remains fragile would risk undermining the objective of reducing external vulnerability through building international reserves. Credit to the economy continued to grow strongly in the first seven months of 2009, driven by lending under government programs, often at subsidized rates. In addition to crowding out normal commercial credit and imposing fiscal costs, the lending programs boosted domestic demand, which increased the trade deficit and has led to loss of reserves in recent weeks. These lending programs need to be curtailed and the resulting changes reflected in the government programs under which they take place, to alleviate reserve losses.

5. The authorities' commitment to a balanced budget in 2009 has been an important source of strength for the economic program. To realize this target, the government needs to closely monitor the collection of revenue in an environment of lower income, profits, consumption, and trade activity. It would be advisable to defer a public wage increase, while providing targeted social assistance to shield the poorest from the impact of the crisis. It is also important to keep the deficit of the local governments under control.

6. A prudent fiscal position in 2010 is necessary to consolidate macroeconomic stability. Tax reforms envisaged in 2009, which would help reduce distortions in the system, need to be followed through. In the meantime, utility tariffs should be raised toward cost recovery level, and social assistance reform completed.

7. The NBRB needs to tighten credit policy in the near term. Given the already high level of interest rates, strict limits should be set on lending under government programs. This would not only reduce import demand but also contribute to more effective risk management in banks. It will also be important to strengthen the operational independence of the NBRB through legislative changes which would facilitate monetary policy implementation and effective banking supervision. Any easing of the policy stance should be conditional on continued decline in inflation and recovery in reserves.

8. While the banking sector is less susceptible to global deleveraging, it remains vulnerable to a rise in non-performing loans (NPLs) and domestic liquidity risk. The NBRB should continue monitoring the asset quality and liquidity situation closely, and enforce prudential regulations.

9. Increasing the commercial orientation of the banking sector would be essential to improve risk management and reduce banks' vulnerabilities. Transferring existing bank

loans under government programs to the proposed Financial Development Agency would help clean up the banks' balance sheets. The agency should take over existing government-directed loans and associated state funding from commercial banks, and could eventually become the exclusive source of funding for government programs, with its lending financed from the budget and banks disengaged from such lending. At the same time, efforts should be made to strengthen governance of the state-owned banks and prepare them for privatization.

10. Looking ahead, the economy is expected to grow at lower rates than recently registered for the foreseeable future in the context of a weak global recovery. GDP is expected to contract this year, largely because of spillovers from the deep recessions in Russia and the European Union. In 2010, benefiting from a gradually recovering global economy, output is expected to register a modest rebound.

11. In the longer run, several external constraints may hinder a return to the growth path prior to the current crisis. Both the GDP level and potential growth rate of Belarus's main trading partners are likely to be lower in the aftermath of the crisis, reducing external demand for Belarus's products. Easy access to the Russian market is no longer guaranteed. Belarus would not benefit to the same extent as in the past from preferential prices on oil and gas imports from Russia. This would have significant costs for Belarus.

12. Domestic factors could also hold back the country's potential growth. Domestic savings have been lower than investment, putting pressures on an investment-driven growth model as external financing is likely to be less accessible and more costly following the global crisis. In addition, there are indications that the returns from investment have declined, not only because the level of investment is already very high, but also much of the recent investment has been in

residential construction. Like some other countries with aging populations, the labor force is likely to shrink reflecting demographic trends. Due to these factors, long-term potential growth in Belarus could be 2-3 percent lower than the pace observed in the past decade.

13. To repeat the remarkable growth performance of recent years, it would be essential for Belarus to strengthen its growth factors by carrying out structural reforms. Significant productivity gains would be necessary to resume high economic growth given the limited scope to increase capital and labor input from domestic sources. In this respect, the emphasis on public expenditure on education should be maintained. Experience in other countries that have undergone economic transition proves that better allocation of resources, a larger and more dynamic private sector, and increased use of foreign capital can help boost productivity growth. Belarus has much to gain from market-oriented reforms given the fact that Belarus is still in its early stage of transition, and its structural reforms can focus on yielding state control to market forces, and steadfastly pushing ahead with privatization.

14. To allow market forces to play a major role in the allocation of resources, state intervention in the economy should be significantly reduced.

- Price controls need to be reduced to the minimum so that the price signal can direct the flow of resources and help adjust excesses and shortages in the economy, and most retail trade margins should be abolished in line with the government's agreement with the World Bank;
- Wages need to be liberalized to reward high productivity, and the labor market developed so that workers can move to jobs where they are most productive;
- Mandatory quantitative targets at the macroeconomic and

enterprise levels need to be abolished as it has become more difficult to manage an increasingly sophisticated economy through central planning; and

- The banking system shall be allowed to make lending decisions based on the profitability and risks of the projects rather than government directions or recommendations.*

15. Productivity growth will also benefit tremendously from the emergence of a strong private sector.

- Conditions for setting up new private businesses should be simplified, as experience in other countries indicates that jobs created by the private sector can provide employment opportunities for workers laid off as a result of state enterprise reforms. New businesses might be created by spinning off parts of existing state enterprises.*

- The regulatory burden on the private sector should be further reduced, and greater flexibility in setting prices, wages and margins allowed.*

- The expansion of the private sector would benefit from financial sector reforms that help increase the private sector's access to credit resources;*

- These benefits can be amplified by the participation of foreign investors.*

- An ambitious and transparent privatization agenda that is open to foreign investors would help bring capital, technology, and management and marketing skills. This, combined with a high-quality and better motivated labor force, holds the promise of greatly increasing total factor productivity. Foreign investment can also help diversify Belarus's production base and export market, and spread good business practices to the rest of the economy;*

- To attract investors, both foreign and domestic, conditions attached to new investment, including the requirement to keep the current employees and wage scale should be reduced;

- Learning from other countries' experience, the renewed drive can start with the enactment of a modern Privatization Law and establishment of a Privatization Agency charged with preparing enterprises for privatization, with the power to hire professionals from the market to support the process. Privatizing a few enterprises through an open, transparent, and competitive tender early next year would help demonstrate the government's commitment and help build capacity.

16. Providing social security can help reduce the negative impact of, and sustain popular support for the structural reforms. A social safety net can be established to give subsistence and vocational assistance to the temporary dislocated labor force, until they are re-absorbed by the labor market. Privatization proceeds and fiscal savings from reduced subsidies to inefficient production can help finance the safety net.

17. The exchange rate level and regime appear appropriate, but a move to a more flexible system would eventually be warranted. At present, the current peg to a basket of currencies with flexibility around a central parity offers the best prospect of maintaining external stability. Over time, and when a supporting institutional framework is in place, Belarus can move further in the direction of exchange rate flexibility. A flexible exchange rate regime would better enable Belarus to handle the real sector shocks to which it is subject. It would require an alternative nominal anchor (such as an inflation targeting framework) and an independent central bank capable of implementing credible monetary policy.

Source: the [IMF](#) web site.