We commend staff for a frank and analytically sound CAS. Despite significant commitments of intellectual and financial resources from both the IMF and the Bank, Belarus has made virtually no progress on reform. Until a fundamental change of approach is adopted by the government of Belarus, we believe that the Bank should continue its engagement on a non-lending basis only. Such an approach is fully consistent with the Bank’s efforts to place greater emphasis on achieving results rather than simply producing plans and projects.

We are highly skeptical that the minimalist measures being undertaken as part of the effort to secure a CCFF from the IMF are indicative of any substantive change of direction.

Notwithstanding some good intentions among many Ministers and technocrats, political will has been lacking at the very top. While commitment from the top is not sufficient to ensure reform, it is a necessary condition.
Recent statements by President Lukashenko are discouragingly clear. The Dow Jones Newswire of January 15 reports Lukashenko has publicly dismissed the validity of market mechanisms and declared that the correct response to inflationary pressures is heavier government interference in the economy. Among other statements, the President said: “We discard free-market regulation of the prices. It is all silliness.”

In accordance with Lukashenko’s analysis, the authorities continue to rely on price controls in the face of mounting inflationary pressures. As prices for “socially important goods” remain nominally fixed, shortages are increasing and rationing of staple goods has reemerged.

Unlike some of the other transition economies where intended reforms have been delayed or derailed, in Belarus there does not seem to be even a pretense of intent to reform.

While we would be pleased to be proven wrong in the long run, we simply cannot see how the growth statistics that Belarus has produced can be sustainable. Belarus continues to operate what is essentially a command economy. It is often said that Belarus has contained budget deficits, showing good commitment to financial stabilization. However, Belarus has engaged in massive quasi-fiscal spending through directed credits, periodic write-offs of arrears, price controls, and exchange rate subsidies.

As we have all seen, sooner or later the pressures that build as a result of such practices will overwhelm the capacity to compensate.
Those pressures are already becoming apparent in Belarus: reserves are down to the equivalent of two to three weeks of imports (while trade deficits with non-CIS partners continue), inflation is up, the gap between the official and unofficial exchanges rates is growing, and nominally private firms report they simply cannot continue to produce at the dictated prices and marketing arrangements. The few foreign firms that have ventured into Belarus have indicated that they plan to curtail or stop operations following the government’s moves to limit international currency transfers and stop honoring agreements for beneficial customs treatment.

Furthermore, one has to ask how long Belarus will continue to benefit from indirect subsidies from Russia, given that country’s acute ongoing financial difficulties. Non-payment of energy debts, an important source of implicit subsidization, may diminish now that Gazprom’s financial situation has worsened. The company suffered substantial losses in 1998, largely due to financing difficulties caused by non-payment of bills by Belarus and other CIS countries.

We support and see value in a continued economic dialogue between the Bank and the government of Belarus. We hope the dialogue will produce a fundamental change of policy approach. With such a change, we would support the development of a full CAS for Belarus.

Until there is a serious commitment to sustainable economic policies, we see no basis on which to move forward with even a low case lending scenario. Working with the World Bank must be a partnership, not a one-way flow of funds. We question whether that idea has been accepted by the government of Belarus when the government response to the CAS includes the assertion that “it is
crucial to work on the issue of implementing a private enterprise development project without linking it to any economic commitment of the Republic.” (Annex A1, paragraph 12)

We note that the recent update from the Bank suggests that it will begin to prepare one project once Belarus has made substantial progress in the reform of the exchange rate regime, along the lines contemplated by the IMF’s track record requirements, but would not present the project to the Board until further exchange rate reforms as contemplated by the CCFF requirements had been successfully implemented.

We would be interested in hearing more detail about the actual requirements set out in the track record by the IMF and how much progress has been made to date by Belarus. We understand that Belarus has already fallen behind schedule, including in important areas such as liberalizing the exchange rate, controlling money growth and limiting price controls.

Meeting the IMF’s requirements related to the exchange regime would be a step in the right direction but more is needed. Before the Board is presented with a project, we strongly urge the Bank to require additional exchange rate reform that will support market pricing and help eliminate distortions in trade patterns. This would be an important step toward creating a truly market-driven system that can harness individual initiative and lay the foundation for sustainable economic growth.

Without a requirement for at least this very basic measure in support of structural reform, we see little prospect that even
modest investment projects could be implemented successfully and sustainably. In the absence of lending, we encourage non-lending activity that will have an impact on its own and lay the groundwork for good project implementation in the future. Attention to public expenditure and governance would be desirable.

Indeed, we regret the absence of serious discussion of governance issues in the CAS as well as the lack of stakeholder participation in its development; we hope we can be assured that these matters will be addressed if and when a full CAS is prepared.