Sustained strong growth in Belarus requires market-oriented reforms, policy tightening

In 2004, Belarus experienced strong economic growth, supported by a favorable external environment and policies aimed at raising incomes and credit, the IMF said in its annual economic review. Inflation was halved during 2004 and slowed further to 11 percent in April 2005, aided by a balanced budget, exchange rate stability, and continued remonetization on the back of rising trust in banks and the national currency. Inflationary financing of the budget from the central bank was discontinued, and budgetary consolidation progressed further. International reserves rose, government debt is low, and the end-2004 surge in the current account deficit was largely reversed in early 2005.

On the downside, market-oriented structural reforms have stalled, and the business environment is not conducive to private—including foreign—investment. Privatization has largely ground to a halt, and the private sector's share of GDP remains low at around 25 percent. Given the economy's current momentum, significant growth is likely in 2005, but its long-term prospects are uncertain in the absence of wide-ranging structural reforms and a phase-out of pervasive quasi-fiscal activities, notably rapid centrally mandated wage increases and directed lending (which has contributed to escalating liquidity problems in key banks and necessitated further government recapitalizations).

The IMF's Executive Board welcomed the country's strong growth, reduced inflation, and markedly improved poverty indicators. It cautioned, however, that the massive benefits reaped from Russian energy import pricing are likely to fade. It therefore urged the authorities to take advantage of the current favorable external environment and the economy's momentum to tighten macroeconomic policies and launch wide-ranging reforms to facilitate sustained private-sector-led growth. It underscored the need to accelerate the consolidation of quasi-fiscal activities into the budget and reduce their magnitude to safeguard the budget balance. While the nominal exchange rate has played a useful anchoring role from early 2004, the Board saw a need to retain a measure of exchange rate flexibility to safeguard against excessive real appreciation and help deal with exogenous shocks. In addition, the central bank will need to make low inflation its primary objective—a step that would entail granting the central bank full operational autonomy—and to continue raising the level of foreign reserves. ■

Republic of Belarus	2001	2002	2003	2004
	(annual percent change[1])			
Real GDP	4.7	5.0	7.0	11.0
CPI (end-of-period)	46.1	34.8	25.4	14.4
Real average monthly wage (1996=100)	213.9	231.9	238.7	279.0
Gross international reserves				
(months of imports of goods and services)	0.5	0.6	0.5	0.6
Medium- and long-term debt (percent of GDP)	9.2	9.8	8.1	5.9
Short-term debt (percent of GDP)	10.4	11.0	10.8	12.8
Exchange rate (rubles per U.S. dollar[2])	1,383.0	1,784.0	2,052.0	2,160.0

[1]Unless otherwise indicated.
[2]Period average.
Data: Belarus authorities and IMF staff estimates.

Egypt's policies take a pro-reform turn, addressing main challenges

Egypt's economic policies sharply changed direction in 2004 following the appointment of a pro-reform cabinet led by Prime Minister Ahmed Nazif. The new cabinet moved quickly to put in place a number of key trade, foreign exchange, and tax policy reforms. The government also announced plans to restructure the financial sector and privatize most state enterprises, while taking steps to modernize fiscal accounts and strengthen monetary policy.

In concluding the IMF's annual review of the economy in May 2005, the IMF Executive Board commended the Egyptian authorities for the clear change in the direction of economic policies and progress made thus far. The pace of economic recovery picked up in 2004, with real GDP increasing by 4.8 percent in the first half of fiscal year 2004/05 (July–December 2004), compared with the same period a year earlier. Growth was driven largely by strong external demand and underpinned by a moderate revival in consumption and improved investor confidence. Egypt's current account surplus expanded to 4.4 percent of GDP in the fiscal year ending June 30, 2004 and is estimated to be slightly higher for fiscal year 2004/05. External conditions are expected to remain favorable, and the recovery is likely to strengthen during fiscal year 2005/06.

The IMF Board noted, however, that considerable challenges lie ahead to complete Egypt's transformation into a dynamic, private sector-driven economy. Output growth remains below the threshold needed to absorb labor force growth, while government borrowing and debt remain high. The IMF Board encouraged the authorities to maintain the pace of structural reform in the financial, trade, and privatization areas while pursuing decisive fiscal consolidation and strengthening the monetary policy framework to help boost private investment and growth. ■

Egypt	2001	2002	2003	2004[1]
		(annual percent change)		
Real GDP	3.2	3.1	4.1	4.8
Consumer price inflation (end-of-period)	2.7	4.0	11.7	9.0
		(billions of U.S. dollars)		
Exports of goods and services	15.8	18.0	22.9	28.9
Total oil and gas exports	2.4	3.2	3.9	5.7
		(percent of GDP)		
Current account balance	0.7	2.4	4.4	4.5
General government balance	–2.5	–2.4	–2.5	–3.1
General government borrowing requirement	7.9	7.1	6.6	7.1
Net public debt	61.9	65.9	65.7	63.7

[1]Egypt's fiscal year ends June 30. Figures for 2004/05 are staff estimates.
Data: Egyptian authorities and IMF staff estimates.