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The Belarus Economy: Structural Challenges

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State Sector

- 3 712 SOEs
 - 50% (official) or 60% of economy
 - 20.2% loss-making
- Employment is decreasing
 - 1 716 805 employed in Jan 2013
 - 1 505 210 employed in Jan-Sept 2016
- Accumulation of bad debt
 - NPL share is over 12%

Reasons of SOE's inefficiency:

Governance

- Governance
 - Dispersed system of governance, many ministries and concerns
 - Local authorities
 - Ministries are owners and regulators
- Targets
 - Mostly quantitative (output, employment)
 - Efficiency targets recently introduced

Reasons of SOE's inefficiency:

Motivation

- Low pay for managers
 - How to attract the good managers?
 - Incentives for corruption

- Fear as a main motivation
 - Controlling authorities
 - Fears of imprisonment
 - Lack of innovations

Reasons of SOE's inefficiency:

Soft Budget Constraints

- Directed lending
 - Expected positive spillovers
 - But the result is inefficiency
 - Macro instability

- Modernization
 - New equipment
 - But no investment in skills, management
 - No efficiency gains, SOEs are not profitable

Recent reforms of SOE's

- In progress:
 - Efficiency targets for management
 - Independent directors in board
 - Privatization?
 - With help from international organizations (EBRD)
 - Selling shares to “strategic investors”

- But at the same time...
 - Targets for new jobs created
 - Talk of \$500 average wage by the end of 2017

Private Sector

- The share of the private sector is increasing
 - Over 50% according to Belstat
 - Employs 34% of population as of 2013 (Akulava, 2015)
- Business climate is improving
 - 37th in Doing Business 2017
 - Relatively low corruption
- Unequal treatment
 - Higher interest rates
 - Regulation in favor of SOEs

Summary

- State sector is still prevalent and inefficient
 - Soft budget constraints
 - Inefficient governance
 - Problems with motivation
- Private sector faces unequal treatment
 - No fast growth without reforms