

The Long Road to Liberalization: Digest of Belarus Economy

On 29 March 2016 Prime Minister Andrei Kobyakov proclaimed the government's intention to speed up the long-awaited process of joining the WTO.

Moreover, after renegotiating different scenarios for pension reform in Belarus, the authorities have agreed to an increase in the retirement age for men and women.

Meanwhile, on 21 April 2016 President Alexander Lukashenka announced that it would be a tough year for the economy, all the while encouraging the government to accelerate its attempts to develop the economy.

WTO: Reforming the Negotiations

On 29 March 2016 Prime Minister Andrei Kobyakov announced that in the near future Belarus jointly with the WTO team would formulate final proposals and terms for the accession to the organisation. In September 2015 Belarus agreed to a WTO roadmap that includes negotiations with 40 countries.

Belarus has been trying to join the WTO since 1993. However, it is only now after almost a quarter of a century that the authorities have finally made the tough decision to speed up this process. The Belarusian government has taken such an "extraordinary" forward looking decision under pressure from the significantly negative internal and external macroeconomic shocks.

A [prolonged economic recession](#), the [skyrocketing negative trade balance with China](#), increased disagreements with Russia, the country's main trade partner, and the successful accession to the WTO of the other four members of Eurasian Economic Union (EEU) trade bloc prompted the Belarusian side to take the decision.

Moreover, Belarus has already met a substantial number of the WTO obligations by virtue of the participation of other EEU states in the trade organisation, including reduced customs tariffs and financial support for state-owned enterprises (SOEs).

At the same time, some trading partners are increasing import tariffs for Belarus, while others are still avoiding signing bilateral trade agreements with Belarus (for example, China). Therefore, in order to challenge tariff barriers and trade restrictions, accession to the WTO is becoming an irreversible process and one of the main challenges for the state.

Pension Reform: a Gradualist Approach

On 11 April 2016, in an effort to preserve the existing ratio of workers and pensioners, Lukashenka signed a new decree that increases the retirement age for the working population in Belarus. From 1 January 2017 the threshold for retirement will gradually increase by six months each year until it reaches 63 years for men and 58 years for women.

The [demographic problem](#) is the main reason for this reform. In Belarus there are ten people of working age for every four pensioners; by 2035, this number will increase to six. As a result, according to the Deputy Minister of Labour and Social Security Valery Kovalkov, from 2020 this trend will lead to an additional substantial burden on the budget. Thus, in order to

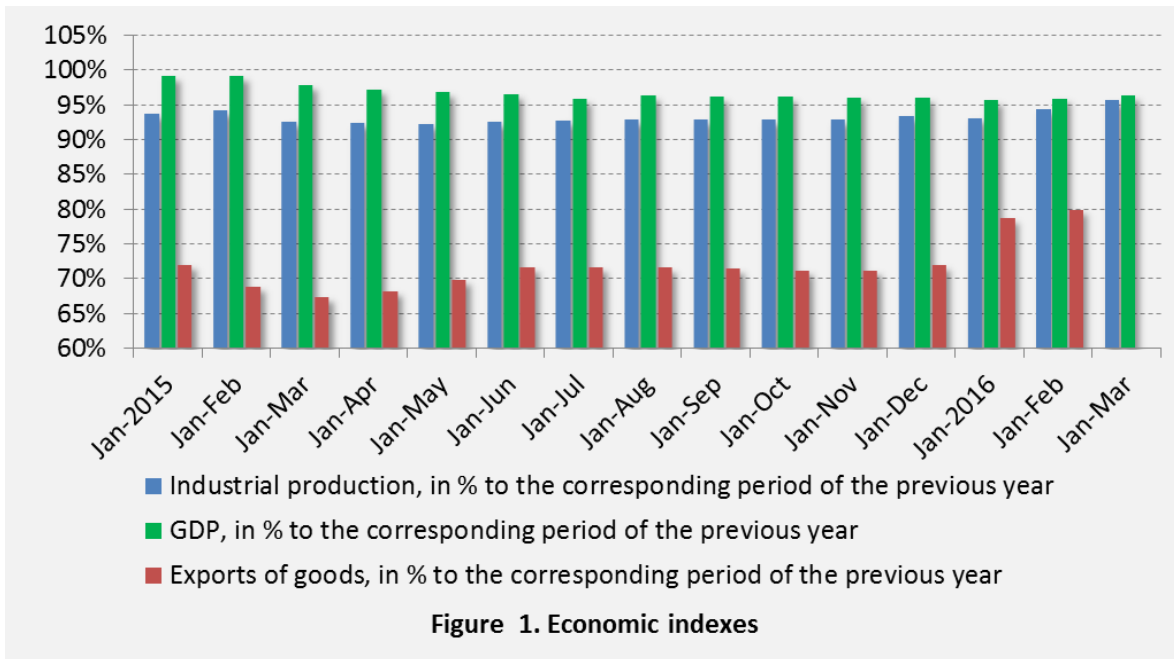
solve this problem the government is encouraging economic entities to hire elderly candidates.

However, experts express doubts about the interests of employers in accomplishing such a task. According to Svetlana Korosteleva, director of consulting company Kvadrat, in Belarus there exists an unspoken age limit for new workers – approximately 45-50 years for both sexes. In most cases employers "fear" that older applicants will not be up to date with industrial trends, will have poor computer skills and perform tasks slowly.

Moreover, business owners that grew up in the 90s seem particularly "vulnerable" to age discrimination as they tend not to hire new specialists over 35 years. But such a "modern" practice of Belarus's businessmen strongly violates national labour legislation, which prohibits weeding out candidates by age, gender, eye colour and other traits.

Economic Growth: Escaping from Dreams

According to an analysis by Standard & Poor's (S&P) carried out on 10 April 2016, the additional economic problems that Belarus is experiencing are due to the low predictability and efficiency of its institutional system, the very weak external economic position of the country and a lack of flexibility of its monetary policy. S&P experts also believe that Belarus will continue to experience an economic downturn (see figure 1).



Later, on 14 April 2016, the IMF in turn revised its forecast on the Belarusian economy. IMF experts think that Belarus's GDP growth in 2016 will decrease by 2.7 per cent, which significantly differs from their October 2015 estimates that predicted a contraction of 2.2 per cent.

However, the Belarusian authorities still forecast positive economic growth for this year. But in the past five years the government has accomplished none of the most important socio-economic indicators it identified. For example, official forecasts [assume five-year economic growth](#) equal to 62-68 per cent, but real figures foresee results more than ten times lower.

This has happened mostly due to the prescriptive, declarative nature of such indicators. In most cases local authorities consider such orders as non-binding obligations that do not correspond with economic reality.

In order to break up such a vicious circle, on 5 April 2016 Prime Minister Andrei Kobayakov announced substantial efficiency improvements in resource use by enterprises. From now on, a return on every rouble of investment constitutes one of the main goals of the new government's economic program for

2016-2020.

Additionally, the government has banned the popular practice of local authorities establishing prescribed economic indicators for state and private enterprises, which presupposed accelerated growth rates in previous years.

Thus, after two decades of "easy" solutions to big problems, Belarus seems to be reversing its economic course in the direction of a more liberalised economy, at least in the labour market, trade policy and management of SOEs. But further, inevitable decisions are still waiting for the right moment.

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