

The Plans for a Miracle: Digest of Belarus' Economy

On 3 June 2016 President Alexander Lukashenka decided to strengthen the country's antimonopoly regulation by reforming the Ministry of Trade of Belarus.

Meantime, state-owned enterprises (SOEs) are gradually losing their strength and are praying for more changes in their public administration.

Finally, on 22 June 2016 the fifth All-Belarusian National Assembly revealed the key priorities of the latest round of economic reforms.

Institutions: Promoting Competition

On 3 June 2016 Lukashenka signed a new decree that establishes a unified antimonopoly body called the Ministry of Antimonopoly Regulation and Trade on the basis of the existing Ministry of Trade of Belarus.

It is intended that the new government agency will merge the functions of price regulation, formerly performed by the department of price policy at the Ministry of Economy, and antimonopoly control, formerly carried out by the Minsk city and regional executive committees.

It will regulate the activities of natural monopolies, prices and tariffs in the consumer market, public procurement, advertising and consumer protection.

According to Minister of Trade Vladimir Koltovich, the creation of a unified and independent antimonopoly body will ensure the development and protection of competition and improvement of antimonopoly legislation.

But a key task for the new state institution is protection of the internal

market from unfair competition and ensuring equal access for all its participants.

However, experts such as the co-chair of the Republican Confederation of Entrepreneurship Viktor Margelov doubt that the new state body will possess enough power to fight against the lobbying pressure of traditional monopolies and regional protectionism (i.e. the shielding of local authorities from competition from other regions of Belarus).

According to Margelov, a better approach lies in the creation of an independent agency subordinated directly to the president. As currently conceived, the agency appears useless considering the high incentives for the government to interfere in it.

Such a gloomy perspective should always take into account the [long-standing resistance of the Belarusian authorities to structural reforms](#), hoping to strengthen the administrative levers of state management in the future, when the economic storm begins to die down.

State Sector: Blind-Eye Management

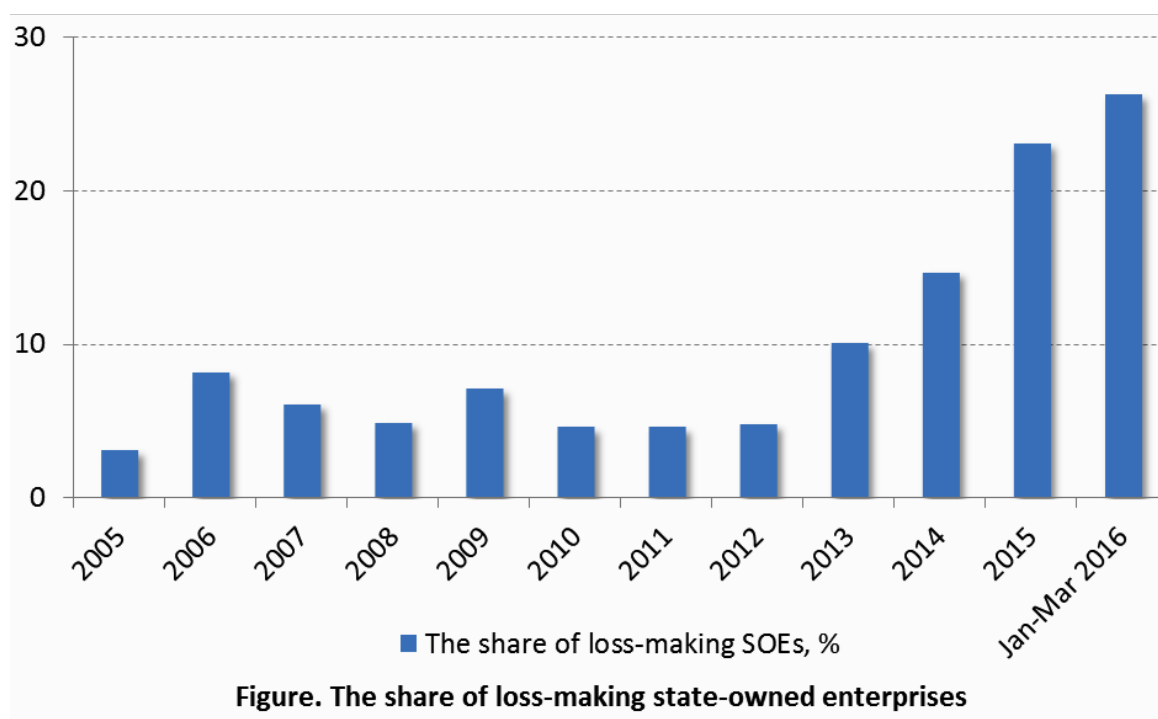
In the meantime, after years of direct administration of the economy and disregard for market rules, SOEs have been significantly transformed.

According to the latest data, the number of commercial organisations with a state share equals 3662. This sector contributes almost 80 per cent to the full body of industrial production, generates more than 60 per cent of the country's revenue and absorbs approximately 60 per cent of all investment in fixed capital in Belarus.

However, despite the unbreakably dominant position of SOEs in the Belarusian economy, their financial performance has started to deteriorate considerably. As a result, in only a few years the share of unprofitable SOEs has skyrocketed.

For example, in 2012 the share of loss-making organisations in the public sector was only 4.8 per cent, but in the first quarter of 2016 it increased to 26.3 per

cent (see Figure below). Moreover, in the first quarter of 2016 SOEs reported net losses to the amount of BYR 3.9tn.



Another significant change is the reduction in the number of employees. In 2012, the average number of SOE employees equalled 1.7m or more than one third of the economically active population of Belarus. However, in the first quarter of 2016 it decreased by almost 200,000 to 1.5m.

Moreover, with such dynamics in the public sector, in ten years the number of employees will fall to less than one million people. Belarusian economists see the main reasons for this situation as the ineffective utilisation of financial and capital assets assigned for the modernisation of SOEs.

Taken altogether, the government has only three choices: to close the inefficient enterprises, to sell them without any terms attached or to find ways to increase the effectiveness of state administration.

Economic Policy: Disclosing the General Plan

On 22 June 2016 Lukashenka while speaking at the fifth All-Belarusian National Assembly announced [several reforms](#).

First, a reduction in state administration and an increase in salaries for officials at the local level.

Second, accelerated development of high-tech industries in the next five years, including microelectronics, laser, bio – and nanotechnologies, and the production of precision mechanical engineering.

Third, creation of more than 250,000 new jobs mostly at small and medium-sized enterprises, to coincide with simplification of the tax payment system.

Fourth, an increase in the protection of Belarusian economic interests in economic organisations like the Eurasian Economic Union (EEU) and European Union (in many cases Belarusian representatives in the EEU have not prioritised national interests).

Fifth, competitive allocation of financial resources to take into account primarily the recoupage of capital investment.

Finally, a significant improvement in relations with the EU and the United States will be pursued in order to diversify markets for export promotion (the key task for the future is the full normalisation of relations and the conclusion of a basic agreement between Belarus and the EU).

The government therefore has a long to-do list for the next five years if it is to increase competition and effectively manage SOEs. However, one question remains: is the time span of the current economic crisis enough to come true above economic changes?

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