



State Capitalism in Belarus: Changing Role in Economics and Finance

(Opening Remarks)

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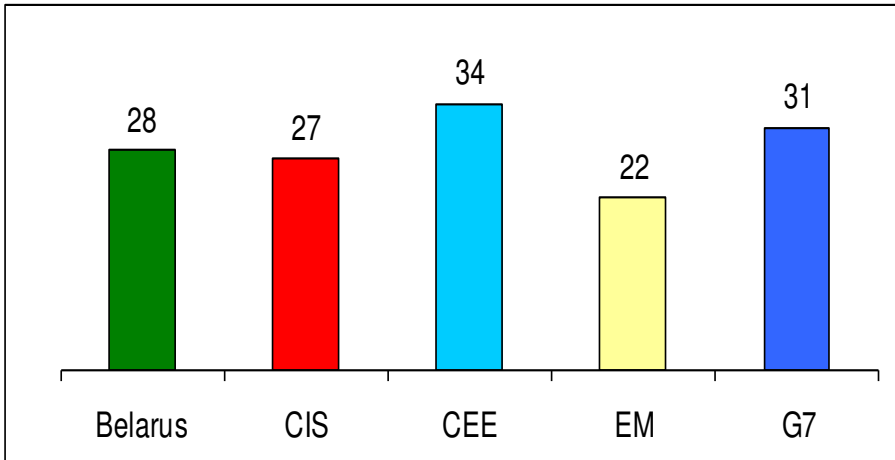
Useful References.

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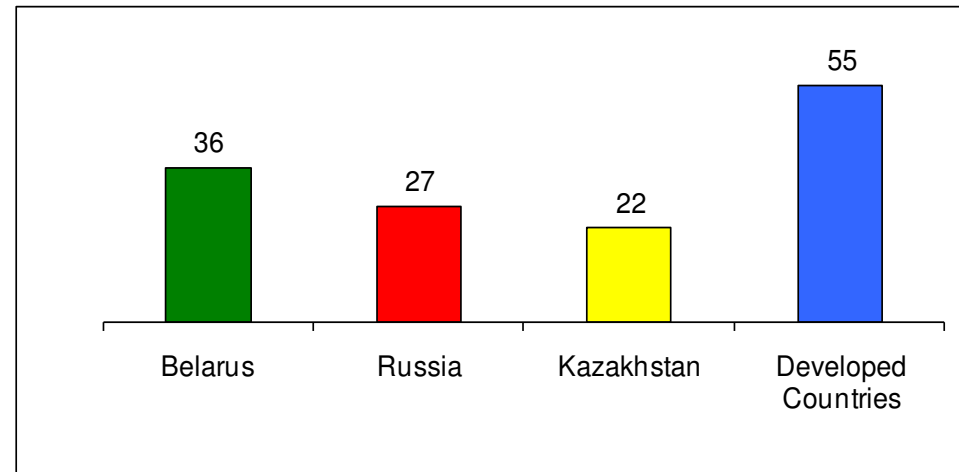
State Capitalism in Belarus: Indicators, Instruments, Reasons

State Capitalism in Belarus: Indicators (1)

Public Expenditures to GDP, %

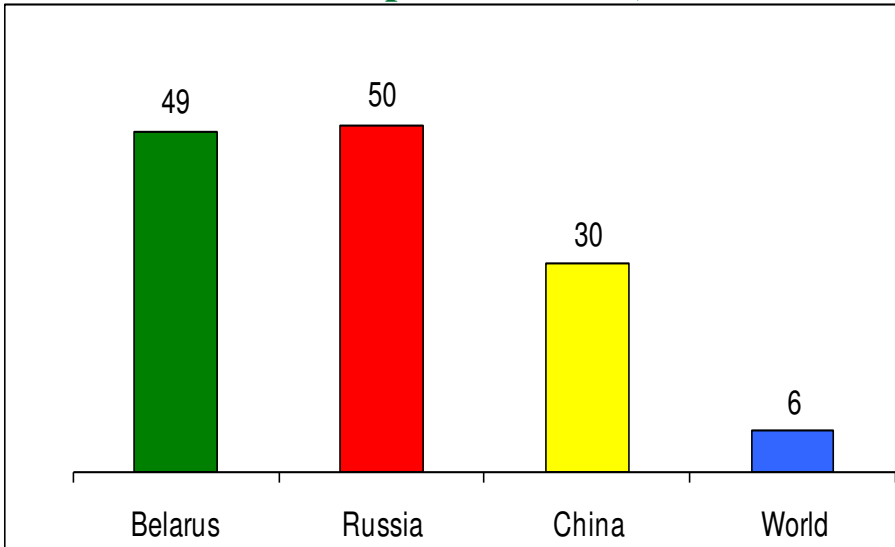


Taxes to GDP (incl. social security funds), %

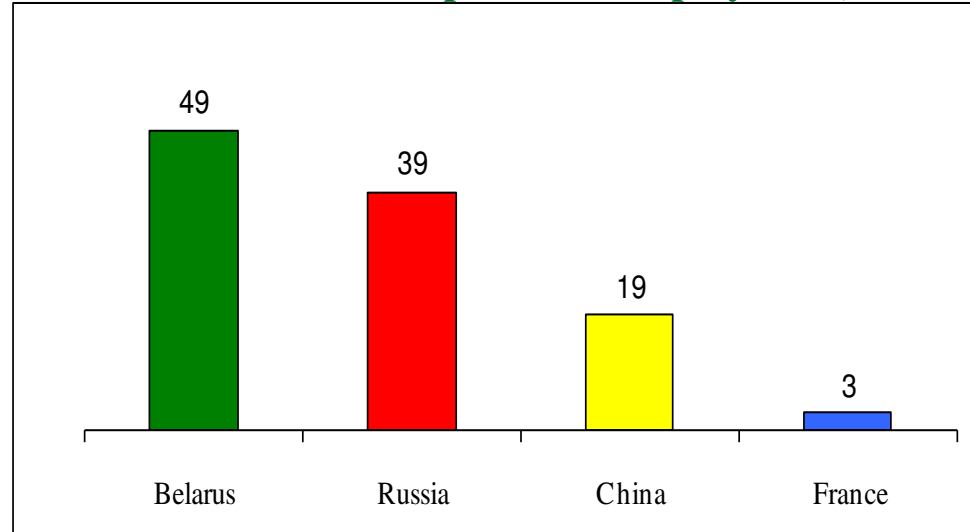


CIS – Commonwealth of Independent States,
CEE – Central Eastern Europe, EM – Emerging Markets

State Owned Enterprises to GDP, %



State Owned Enterprises to Employment, %



State Capitalism in Belarus: Instruments (2)

a) **Direct Government Involvement in business of State-Owned Enterprises (SOEs) and some Private Enterprises (PEs):**

Belarus – central government operational involvement in 74 SOEs (23% GDP), control on business plans of 106 SOEs, administrative and fiscal burden on some PEs; local government involvement;

China – strategic involvement in around 100 SOEs; Russia – mixed operational and strategic involvement (Walter, Howie, 2011);

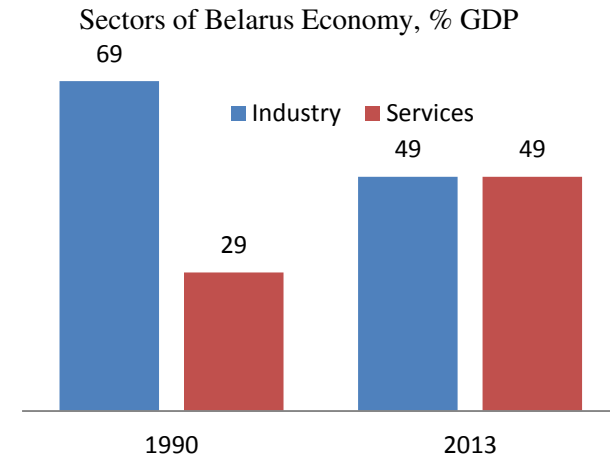
b) **Sovereign Wealth Funds : Belarus – National Development Fund (36 SOEs incl. mostly Belarus Potash Company provides part of their net profit);**

UAE – ADIA; Saudi Arabia – SAMA; Norway – GPF; China – CIC; Russia – RF and NWF; Kazakhstan – NF; Singapore – Temasek (Bremmer, 2010);

State Capitalism in Belarus: Reasons (3)

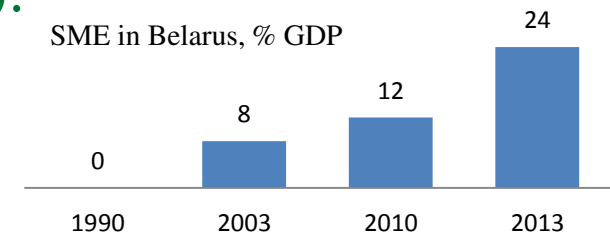
a) Soviet Union Heritage (Gaidar, 2007):

big industry sector, traditions of secrecy, centralized control and power as control over property, budget and cadres; public nostalgia, approval of welfare state;



b) Institutional Underdeveloped (Collier, 2007):

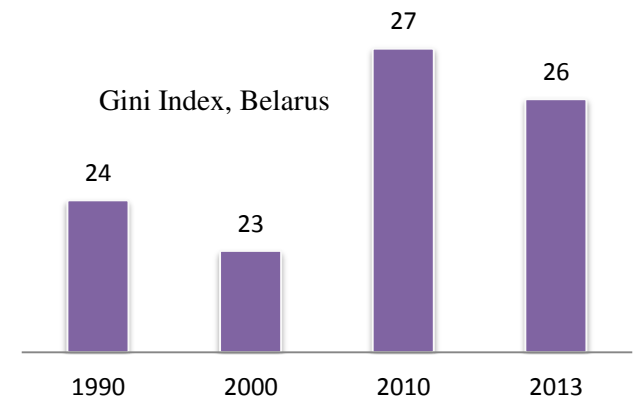
lack of confidence in legal system, fighting corruption; lack of SMEs; lack of competition (public and private monopolies);



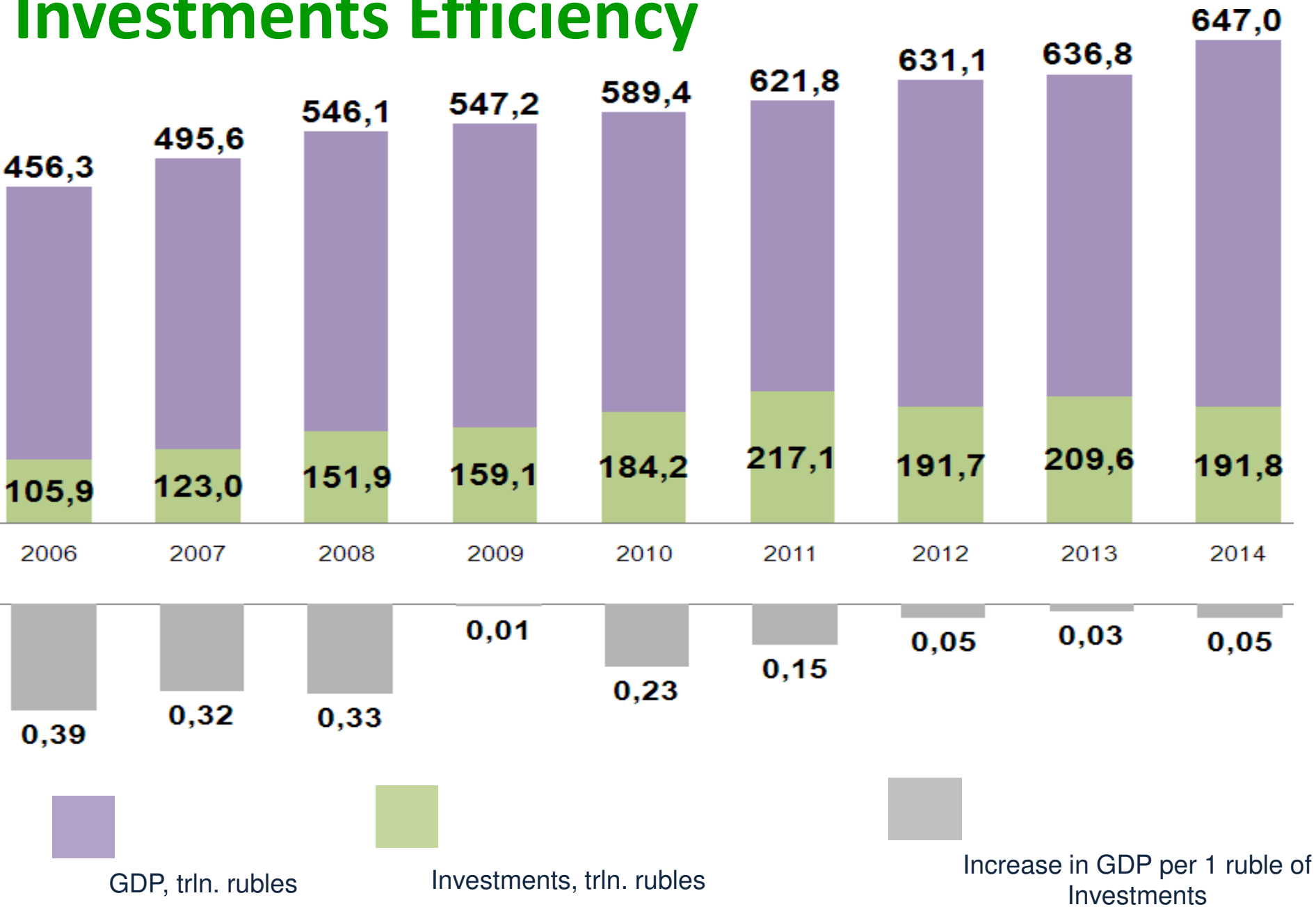
c) Low Inequality and Raising Incomes

(Acemoglu, Robinson, 2006, 2013):

public support of state capitalism because of social stability, equality, raising incomes.

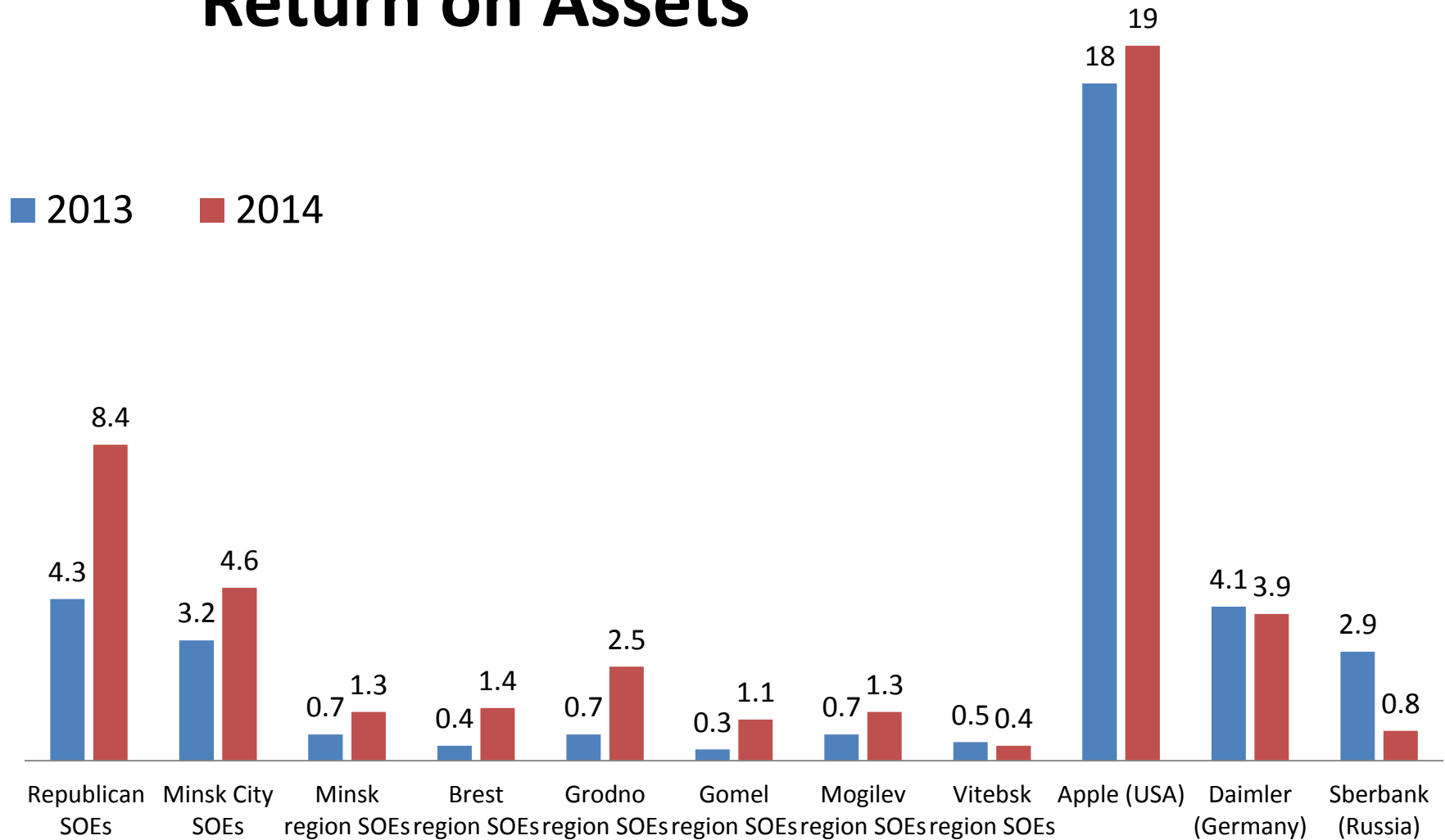


Investments Efficiency



Source: Ministry of Economy

Return on Assets



Source: State Committee of Equity (RoA for Belarus SOEs: Dividends paid to State Assets)

2 Current State Capitalism Traps in Belarus:

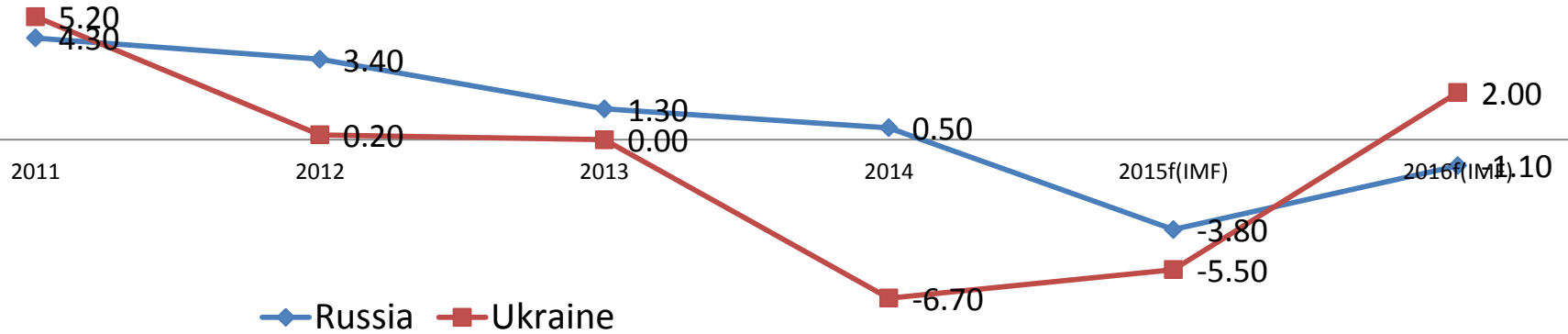
1) Neighbor's Downturn and Conflict Trap

2) Macroeconomic and Financing Trap

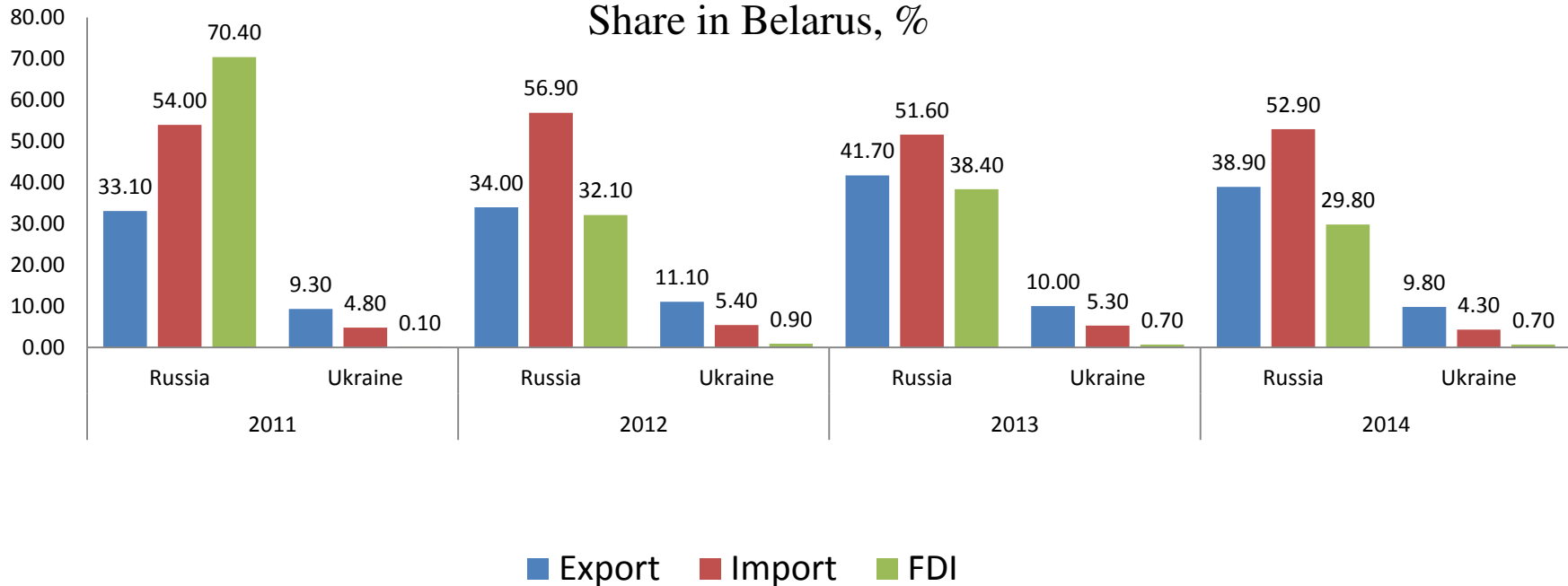
3) Middle Income Trap

1) Neighbor's Downturn and Conflict Trap

Real GDP Growth, %



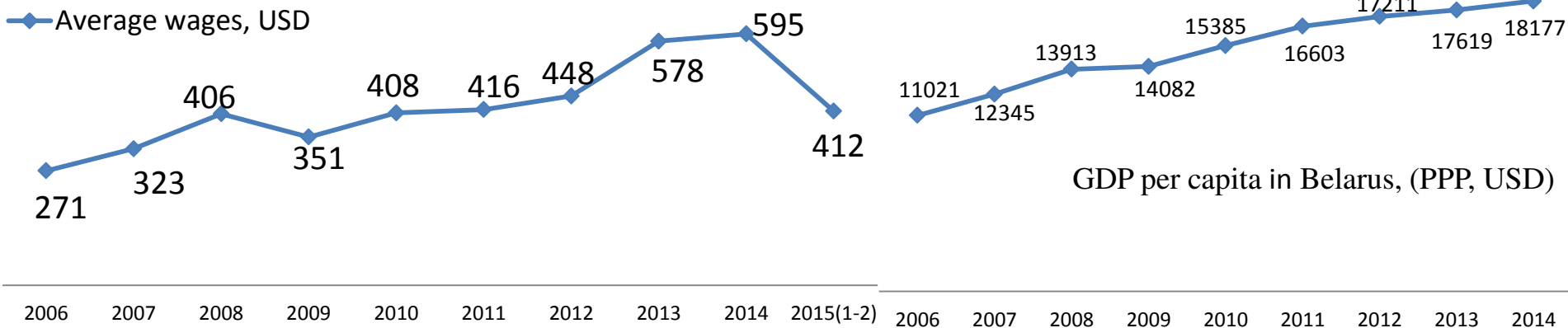
Share in Belarus, %



2) Macroeconomic and Financing Trap

	1996-2000	2001-2005	2006-2010	2011-2014	2011	2012	2013	2014
GDP (Belarus)	6.3	7.5	7.3	2.4	5.5	1.5	0.9	1.6
GDP (Russia)	1.8	6.1	3.7	2.3	4.3	3.4	1.3	0.5
GDP (World)	3.7	3.6	3.5	3.1	3.8	3.1	3.0	2.8
CPI (Belarus)	128.5	25.7	10.4	40.8	108.7	21.8	16.5	16.2
Current Account to GDP (Belarus)	-4.1	-2.3	-9.3	-7.0	-8.5	-2.9	-10.2	-6.7
External Debt to GDP (Belarus)	15.8	22.5	33.4	55.4	57.9	53.5	54.8	55.5

3) Middle Income Trap



Δ Av. Wages $>$ Δ GDP per capita (PPP) (max. 2008, **2013**); Δ Av. Wages $<$ Δ GDP per capita (PPP) (max. 2009, 2011).

Scenarios of Belarus Long-term Development: GDP per capita by 2030 (International comparison)

	Annual GDP Growth 1%	Annual GDP Growth 5%	Annual GDP Growth 7%
Annual Population Decrease by 0,58% (UN forecast)	Slovakia (2007), Estonia (2011), Russia (2012), Lithuania (2012)	USA (2000)	Singapore (2000); Norway (2010)
Annual Population Const.	Poland (2009), Estonia (2009), Russia (2009), Kazakhstan (2011)	Germany (2011), Canada (2011)	UAE (2011)

3 Changing Role of Belarus State in Economics and Finance (10 Steps from President's Address to the Nation, April 29, 2015).

- **Step 1. Management System:** changing state management of the economy from some SOEs, PEs to Industries; decrease the Government by 10%; corporate management in SOEs; restructuring inefficient SOEs, bankruptcy.
- **Step 2. Changing Control over Economy:** move state control from business operations to taxation; increase efficiency of the control over economy.
- **Step 3. Fighting Inflation:** monetary targeting, taxation moratorium in 2016.
- **Step 4. Budget Expenses Efficiency:** BOR – budgeting oriented on result, medium-term budgeting, new mechanism in state support of the economy (competitive distribution through Development Bank) .
- **Step 5. Financial Market Development:** National Bank becomes the mega-regulator of banking, security, insurance, leasing companies; integration of national and international financial markets; international IPOs for SOEs; capital amnesty.

10 Steps from President's Address to the Nation, April 29, 2015 (Cont.)

- **Step 6. Antimonopoly Service:** increase cooperation between central and local government; separate antimonopoly institute.
- **Step 7. Business Climate Improvement:** decrease administrative burden on economy (permissions, paperwork, statistics), SME support.
- **Step 8. Export Diversification:** support for the trade with China (international silk route), EU, US (decrease the sanctions), expand cooperation with other regions.
- **Step 9. New Instruments in Agricultural and House-building Policy:** privatization of agricultural households, decreasing state support; mortgage.
- **Step. 10. Legal System Improvement:** attract world-known legal firms for consulting; increase confidence in local courts.

Barriers to Implement 10 Economic Steps:
three issues for Think Tank.

- 1) Financing Inflows vs. 10 Economic Steps: **issue of incentives.**
- 2) Confidence in "business as usual" vs. 10 Economic Steps: **issue of competence.**
- 3) Public Support vs. 10 Economic Steps: **issue of employment and real incomes.**

Useful References:

