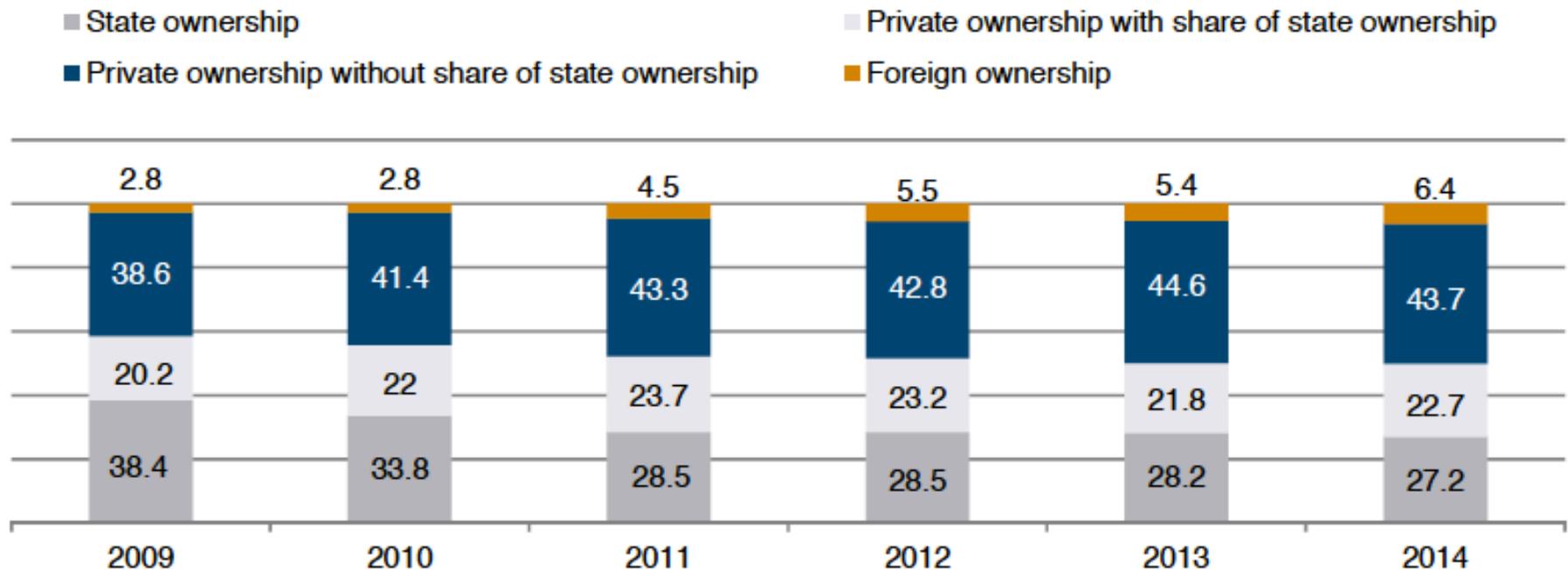


Structural Challenges

Figure 2.1 / Gross value added produced in Belarus by type of ownership, 2009-2014, %



State Sector is Inefficient

- 3 712 SOEs
 - 20.2% loss-making
- Employment is decreasing
 - 1 716 805 employed in Jan 2013
 - 1 505 210 employed in Jan-Sept 2016
- Directed lending leads to inefficiency
 - Kruk&Bornukova (2014), Favaro et al. (2012), Akulava (2015)

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

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

Social Contract

- In the past:
 - Almost full employment (or possibility to work in Russia)
 - Subsidies for everyone
- Today:
 - Unemployment of 5-6%
 - Subsidies withdrawn
 - New system of the social support is slow to emerge