

Kastryčnicki Ekanamičny Forum

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# KEF-2017: Foundations of the future

Minsk Consensus:  
Revision of the post-transition agenda?

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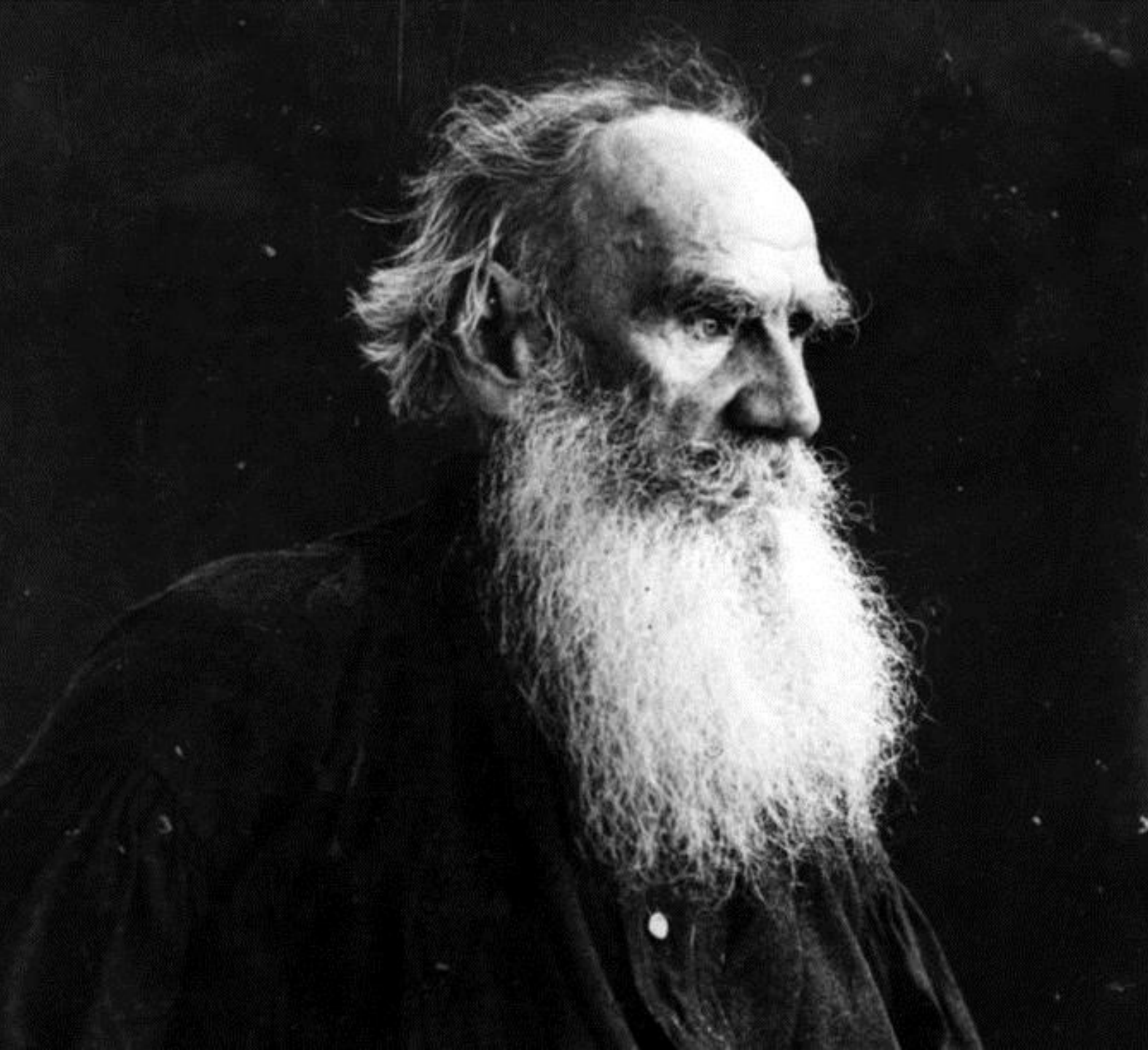
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# **Minsk Consensus: Revision of the post-transition agenda?**

Karlis Smits, The World Bank  
Minsk, November 3, 2017

# **Part 1: Consensus on Happiness**



All happy families are alike; each unhappy family is unhappy in its own way.

— Lev Tolstoy, Anna Karenina

# 10 CHARACTERISTICS OF A HAPPY FAMILY (*HAPPY ECONOMY*)—*WASHINGTON CONSENSUS*

1. **Fiscal discipline**
2. **Redirection of public spending from unproductive spending toward broad-based provision of key pro-growth, pro-poor services**
3. **Tax reform**, broadening the tax base and adopting moderate marginal tax rates
4. **Interest rates that are market determined** and positive (but moderate) in real terms
5. **Competitive exchange rates**
6. **Trade liberalization**
7. **Liberalization of inward foreign direct investment**
8. **Growing private sector and reduced state presence**
9. **Deregulation**: abolition of regulations that restrict competition
10. **Legal security for property rights**

# BELARUS GOVERNMENT'S GRADUAL REFORMS (E.G. ACTION PLAN 2016-2020) LARGELY SIGNAL INTENT TO FOLLOW THESE PRINCIPLES

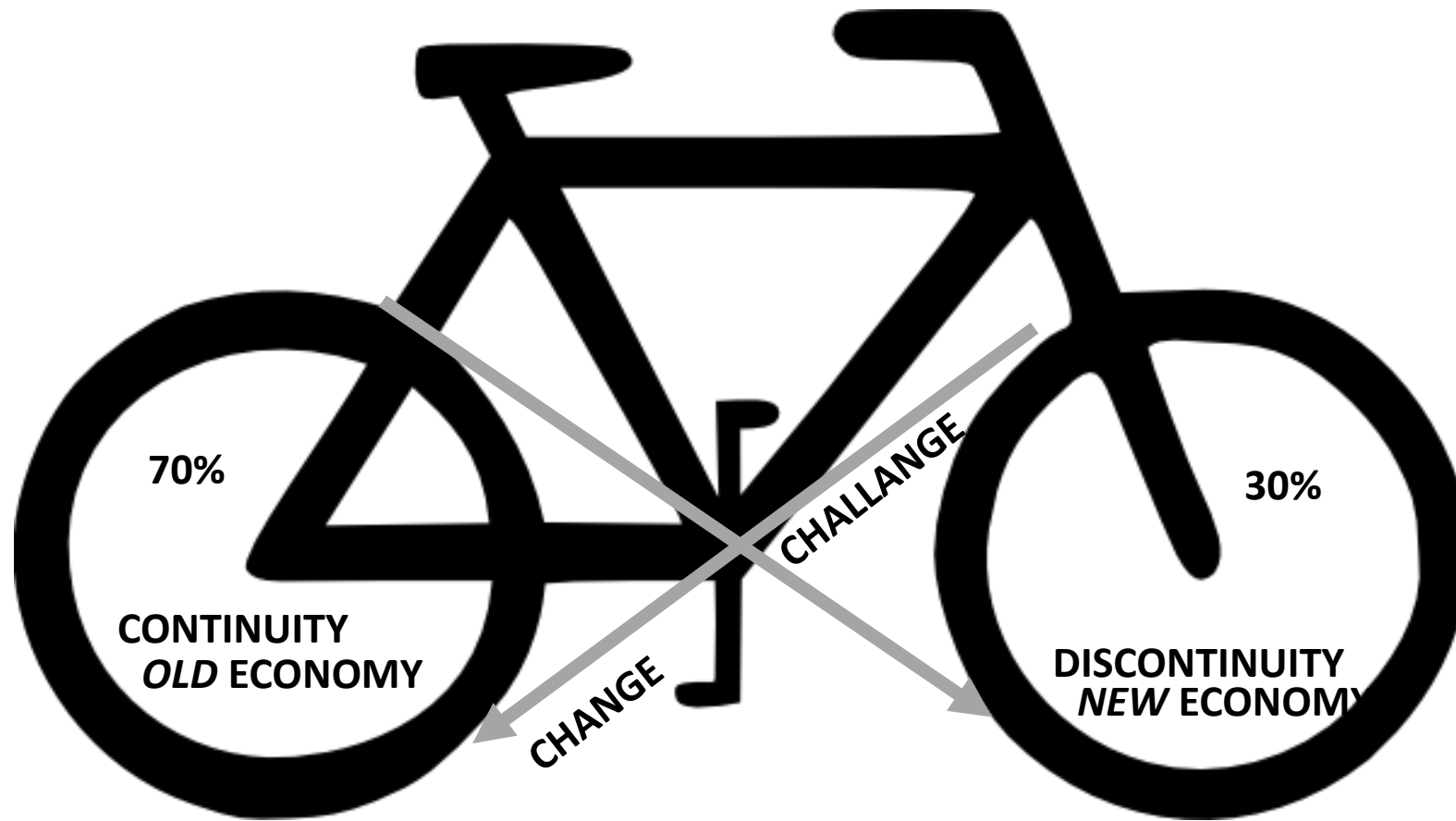
1. Fiscal discipline ✓
2. Redirection of public spending from unproductive spending toward broad-based provision of key pro-growth, pro-poor services ✓
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates; ✓
4. Interest rates that are market determined and positive (but moderate) in real terms ✓
5. Competitive exchange rates ✓
6. Trade liberalization ✓
7. Liberalization of inward foreign direct investment ✓
8. ~~Growing private sector and reduced state presence~~ SOE reform ✓
9. Deregulation: abolition of regulations that impede market entry or restrict competition ✓
10. Legal security for property rights ✓

# TOWARDS A HAPPY FAMILY

While there is a broad recognition that in order to become *a truly happy family* change in Belarus is needed, there is no political agreement on the scope, scale and timeline of such reforms

What should be the appropriate scope, scale and timeline of change in Belarus?

**BEIJING CONSENSUS: RIDING A BI-CYCLE TOO SLOW OR TOO FAST YOU MAY FALL AND FAIL (AND NO ONE WILL HELP YOU)...**





# A CRIC CYCLE: C – CRISIS, R – RESPONSE, I – INERTIA, C-CRISIS

Belarus has responded to past pressures (CRISIS) with episodes of tight macroeconomic policies and swift actions (RESPONSE) , but leaving structural weaknesses largely unaddressed and weaker macroeconomic policy stance as soon as crisis moderates (INTERTIA) and increasing vulnerabilities to external and domestic shocks (CRISIS)



# BELARUS SAVINGS-INVESTMENT GAP IS SIZABLE: BOP SUPPORT FACILITY IN PLACE (AN ACTIVE EFSD PROGRAM)

*External or internal imbalances cannot be sustained indefinitely: an adjustment is inevitable, structural reforms might facilitate it in an orderly manner*

**Table 2-1: Belarus: Savings Investment gap, (percent of GDP)**

Year	Savings-Investment Gap	Government Savings-Investment Gap	Private Savings-Investment Gap
2010	-14.5	-2.3	-12.2
2011	-8.2	2.5	-10.7
2012	-2.8	-0.1	-2.7
2013	-10.0	-2.8	-7.3
2014	-6.6	-1.7	-5.0
2015	-3.6	-4.1	0.5
2016 (estimate)	-4.3	-4.6	0.3
Change 2010-2015	10.9	-1.8	12.7
Change 2013-2015	6.4	-1.3	7.7

Source: World Development Indicators

# SUCCESS IS NOT POSSIBLE WITHOUT HIGH DEGREE OF DOMESTIC OWNERSHIP OF REFORMS

Orderly (smart) transformation requires

- Commitment to direction of reform
- Coordination among all levels of government and private sector actors
- Cooperation all key stakeholders, including public support

This would require:

- Strong economic governance, improved accountability, and transparency
- Adjusting the role of government agencies
- Awareness and communication for public ownership for structural reforms

## **Part 2: Towards a competitive, inclusive and dynamic Belarus**

# UNTIL 2008 THE GRADUALIST STRATEGY WAS SUCCESSFUL IN TERMS OF PER CAPITA GDP GROWTH, HUMAN DEVELOPMENT AND POVERTY REDUCTION

**Table 1-1: Rate of Growth of Per Capita GDP (1995-2015)**

Period	ALL COUNTRIES		ECA		TRANSITION		BELARUS
	Median	Mean	Median	Mean	Median	Mean	Mean
1995-2008	2.4	2.8	3.1	3.9	4.8	5.5	6.7
2009-2015	1.3	1.6	0.7	1.0	1.5	1.8	2.0
1995-2015	2.0	2.4	2.4	3.0	4.1	4.4	5.1

Source: World Development Indicators

# BELARUS'S KEY CHALLENGE TODAY: AVOIDING A LOW GROWTH TRAJECTORY AND PRESERVING INCOME GAINS

What worked in the past will not work in future:

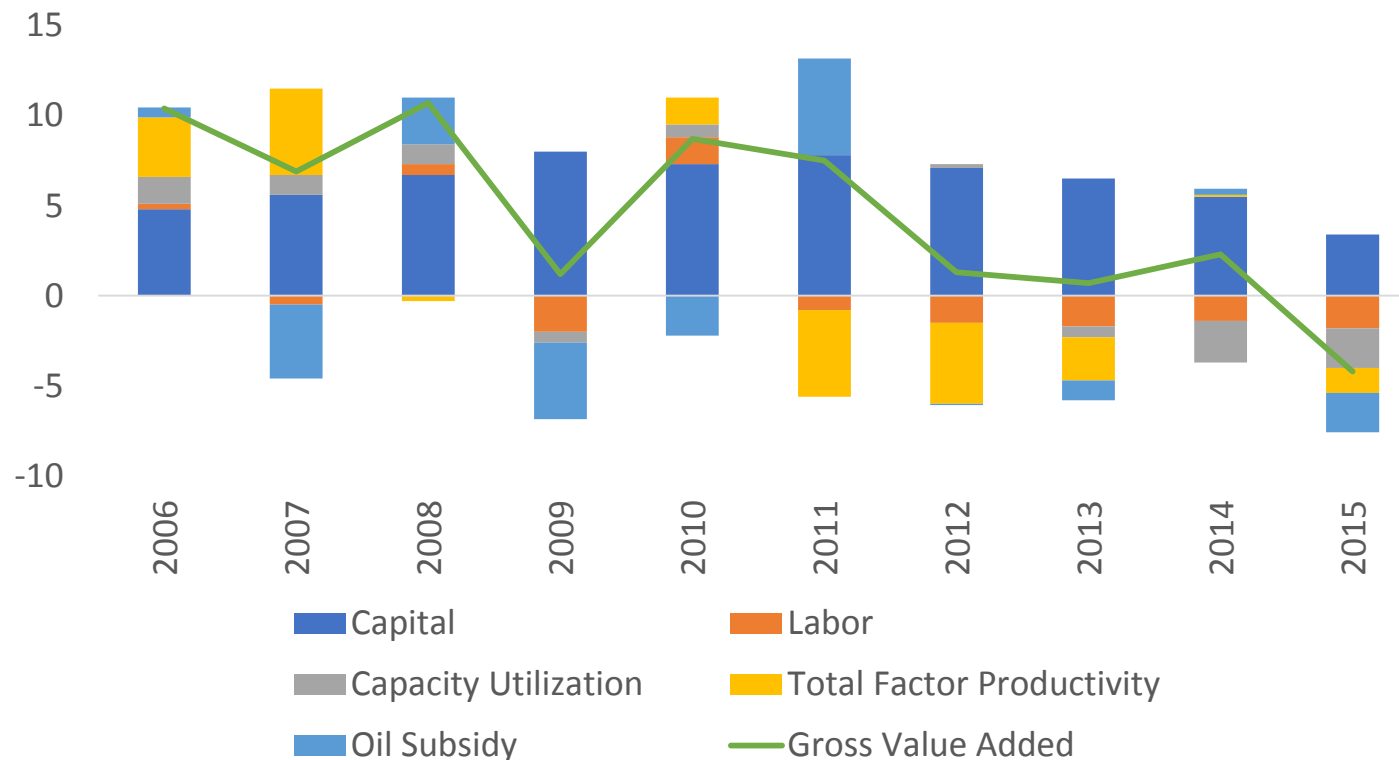
- The **external** circumstances have radically changed
- Deep-seated **domestic structural** rigidities remain

And pressures are building:

- Misallocation of capital and labor has made growth model inefficient
- The social contract is unsustainable
- Excessive dependence on external sources of finance has made the economy vulnerable

# WHAT WORKED IN THE PAST WILL NOT WORK IN THE FUTURE

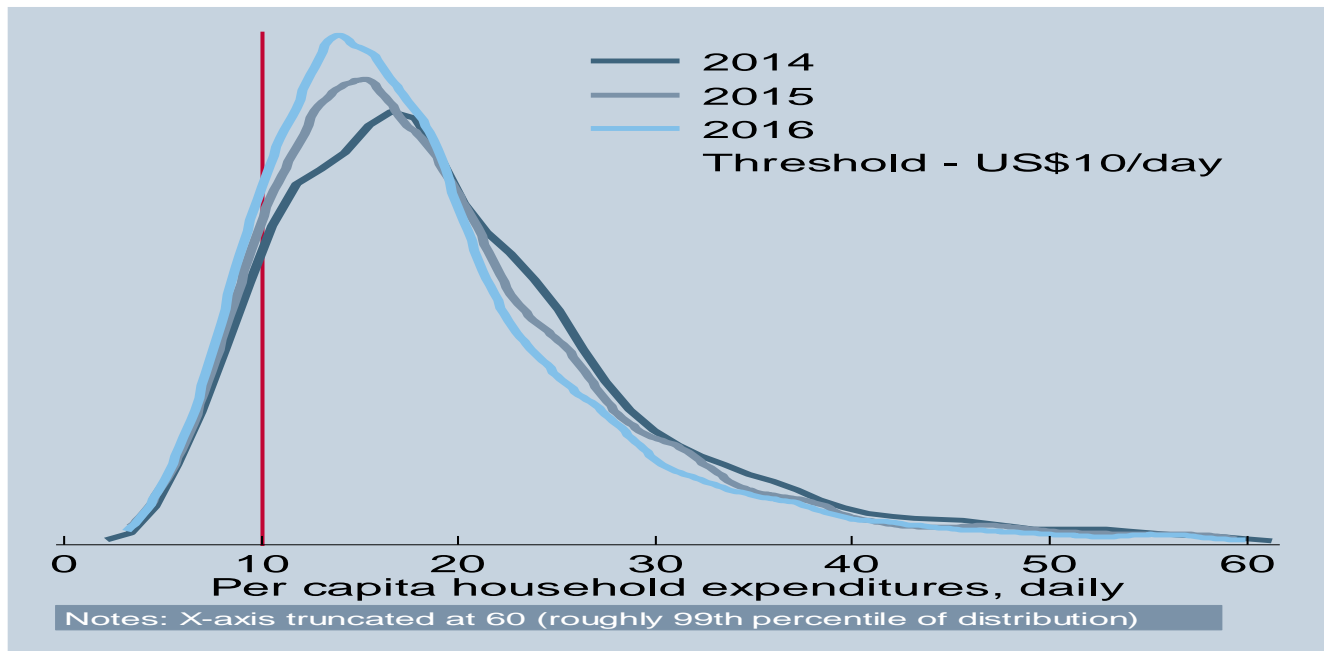
**Figure 1-9: Growth Decomposition – contributions to real value-added GDP growth, percentage points (2006-2015)**



Source: World Bank staff calculations

# A 2 PERCENT ANNUAL GROWTH RATE IS NOT SUFFICIENT TO MAINTAIN THE SOCIAL CONTRACT

Figure 2-12: Distribution of per capita household expenditure (2014-2016)



Source: World Bank staff calculations



# A NEW VISION—A COMPETITIVE, INCLUSIVE AND DYNAMIC BELARUS

A *transition* to a new growth path will require Belarus to complete its economic, social and institutional transformation by:

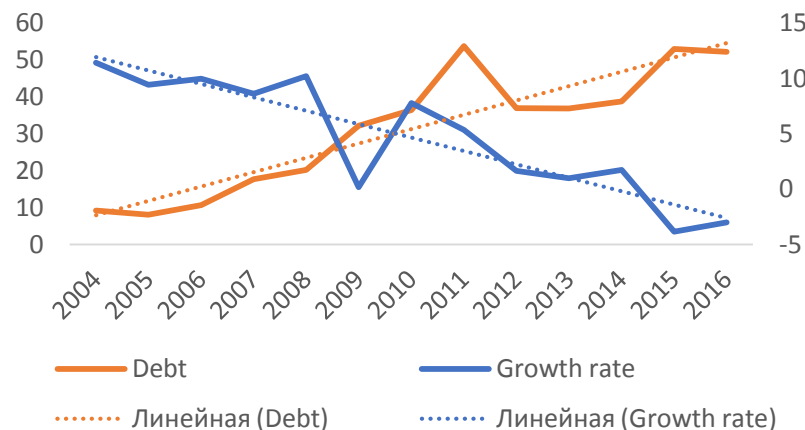
- increasing economy's *competitiveness* by expanding the role of market forces in both real and financial sector and increasing public sector efficiency;
- safeguarding social *inclusion* by strengthening social safety nets and aligning labor market policies with the increased role of markets; and
- upgrading institutional framework to make Belarus's business environment more *dynamic* and market-oriented.

# THE COST OF TRANSFORMATION

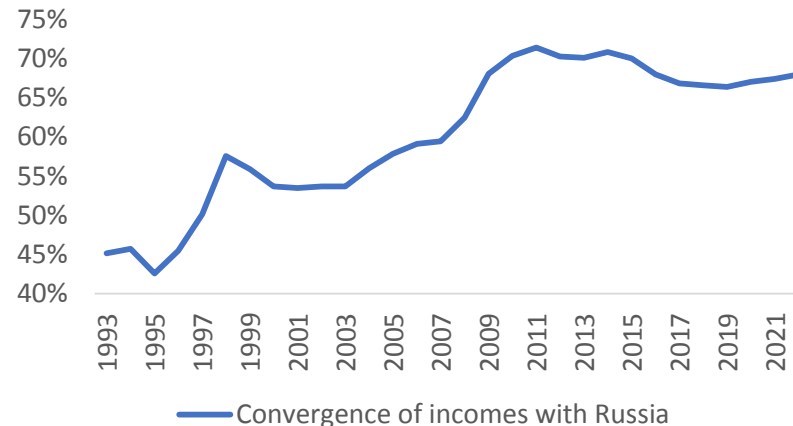
The cost of transformation is likely not to be trivial —social safety nets, employment impact of SOE restructuring

However, the *status quo* path would also have its costs which are much higher—risking reversing progress Belarus achieved over the last decades.

**Figure 2-2: Annual GDP growth rate (RHS) and Public Debt as a share of GDP**



**Figure 3-2: A ratio of GDP per capita in Belarus and Russia**



# Final Concluding Remark

Economic growth (happiness) springs from *better* reforms not just from *more* reforms