

Towards a new pattern of economic governance

Marina Gruševaja, Maria Schappo

German Economic Team Belarus

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Economic governance

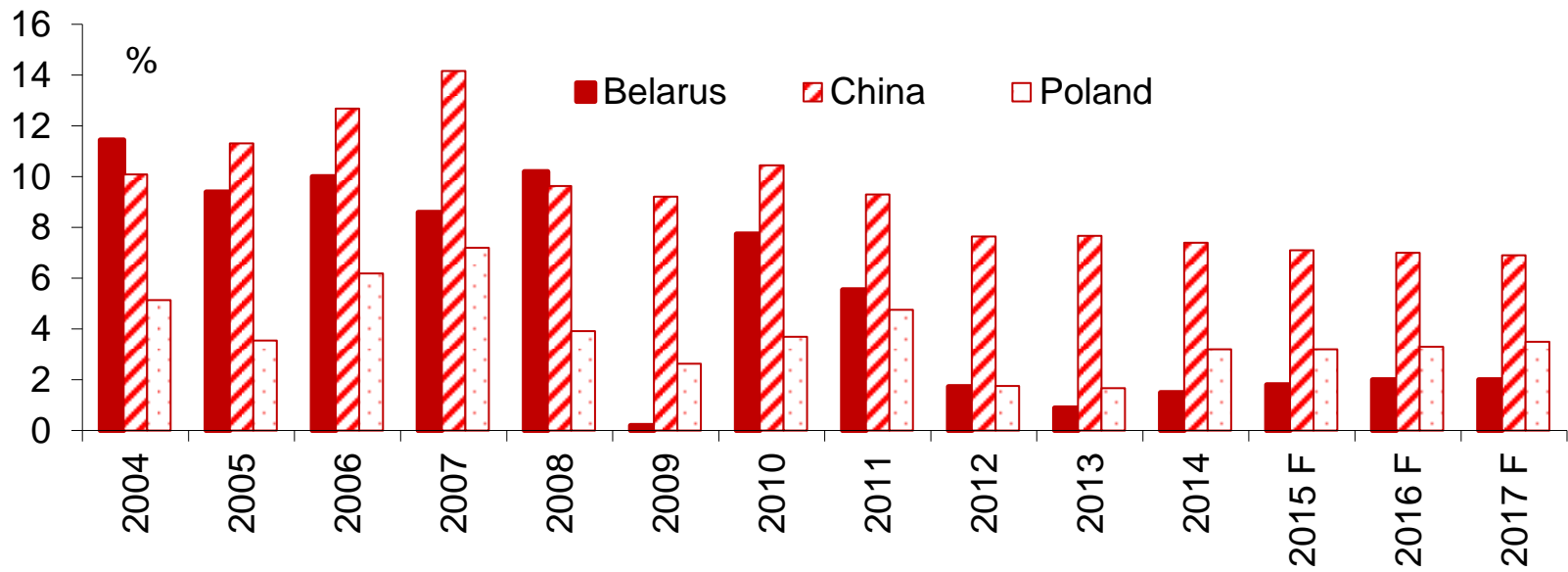
„...consists of the processes that support economic activity and economic transactions by protecting property rights, enforcing contracts, and taking collective action to provide appropriate physical and organisational infrastructure. The field of economic governance studies and compares

- the performance of different institutions under different conditions,
- the evolution of these institutions,
- and the transitions from one set of institutions to another.”

Key message

The existing set of institutions does not fit to the changed economic circumstances and hence to Belarus' needs

- Decreasing institutional efficiency inhibits economic efficiency and will continue to diminish the country's international competitiveness and growth perspectives



Source: World Bank

Implications: Two urgent needs

Short term need

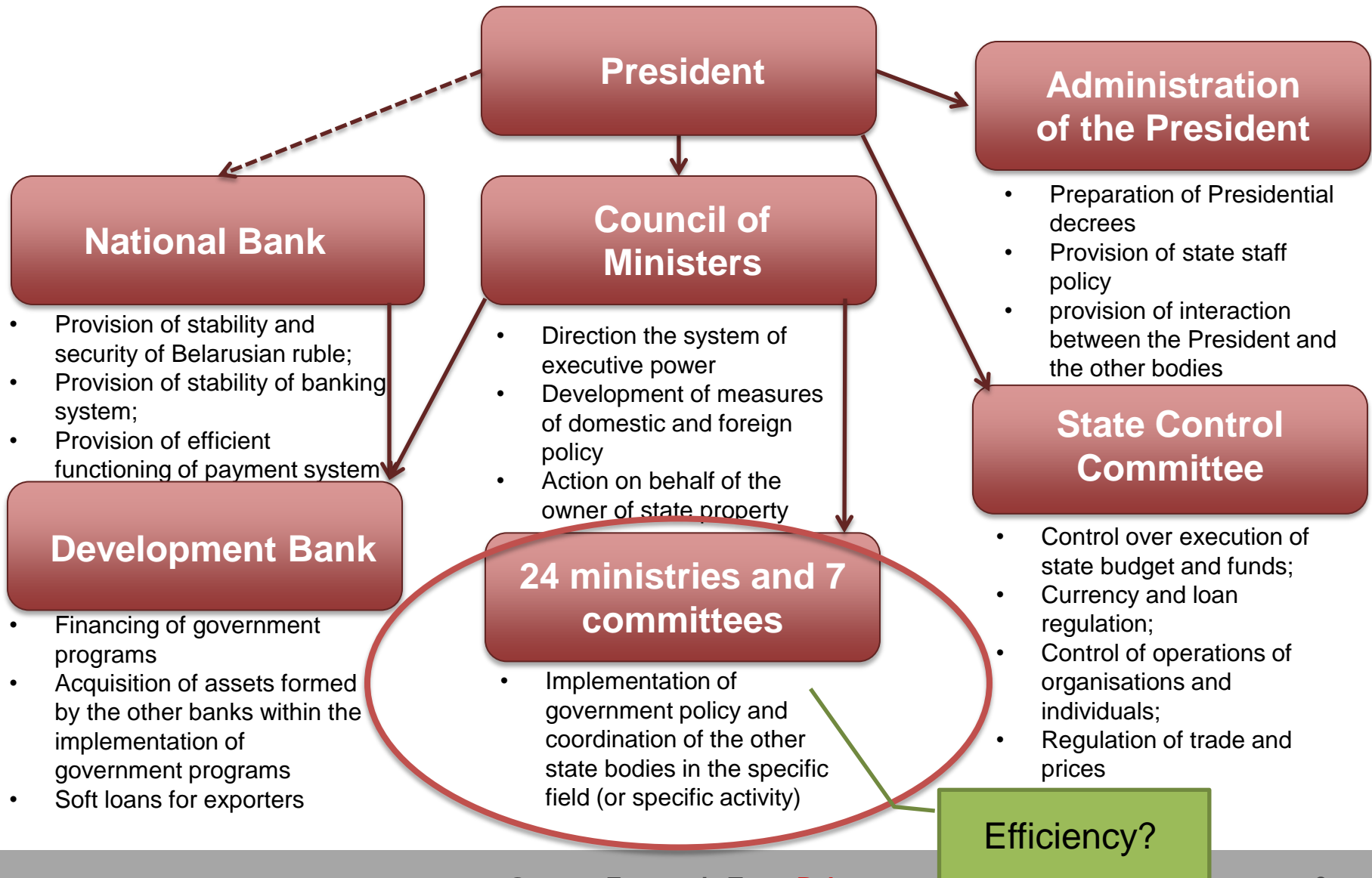
1. Enhancement of efficiency of administrative bodies, state-owned enterprises and private companies through carefully chosen new approach of economic governance (administrative and corporate).

Medium term need

2. A gradual institutional transformation from in most areas prevailing state control over economic activities to a broader range of market-led segments (structural changes).

1. Enhancement of efficiency of administrative bodies, state-owned enterprises and private companies through carefully chosen new approach of economic governance (administrative and corporate)

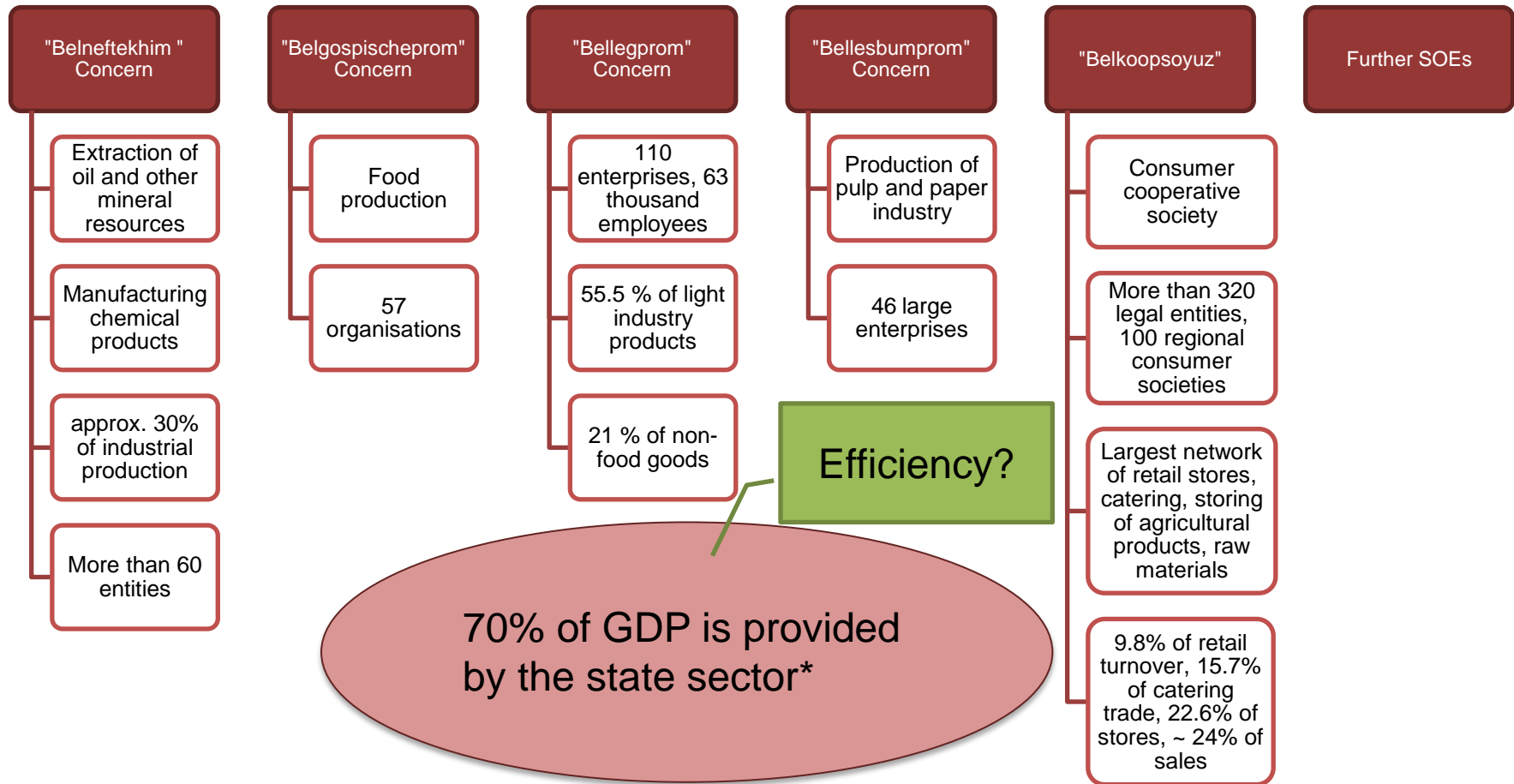
Economic Governance Structures in Belarus – State



Governance Structures: State-owned Enterprises (SOE)

Organisations under the Council of Ministers

Organisations under Ministries and committees



*EBRD 2010 data, dependent on indicators

Economic Governance in Belarus: Government Programmes

Developed according to the “Main Directions of Socio-Economic Development of Belarus”

Performed by central and local executive bodies

Mainly financed from the budget or by direct lending by Development Bank or by commercial banks on special conditions

Realised through direct subsidies, state loans, tax credit, partial interest reimbursement, postponing debts on payments to the budget

Government investment programme – primary source of state support for investments in:

- developing infrastructure
- modernisation projects
- new technologies

Efficiency?

Summary of Findings

Reform steps to implement:

- Relieving of administrative bodies through more effective and rules-based decision making
- Deeper and broader coordination of administrative activities
- Separation of ownership and management of SOE
- Higher share of outsider instead of insider ownership
- Stronger institutions of corporate governance aimed at creating investment incentives
- Prioritisation and evaluation of government investment programmes

2. A gradual institutional transformation from (in most areas) prevailing state control over economic activities to a broader range of market-led segments (structural changes)

What lessons could be learnt from other post-transformation countries?

Structural change on the basis EBRD transition indicators (prevailing growth model)

- Large scale privatisation
- Small scale privatisation
- Enterprise restructuring
- Price liberalisation
- Trade & Forex System
- Banking Reform & interest rate liberalisation
- Securities markets & non-bank financial institutions
- Competition Policy

The EBRD transition indicators are coded as numbers and should be understood in a qualitative way:

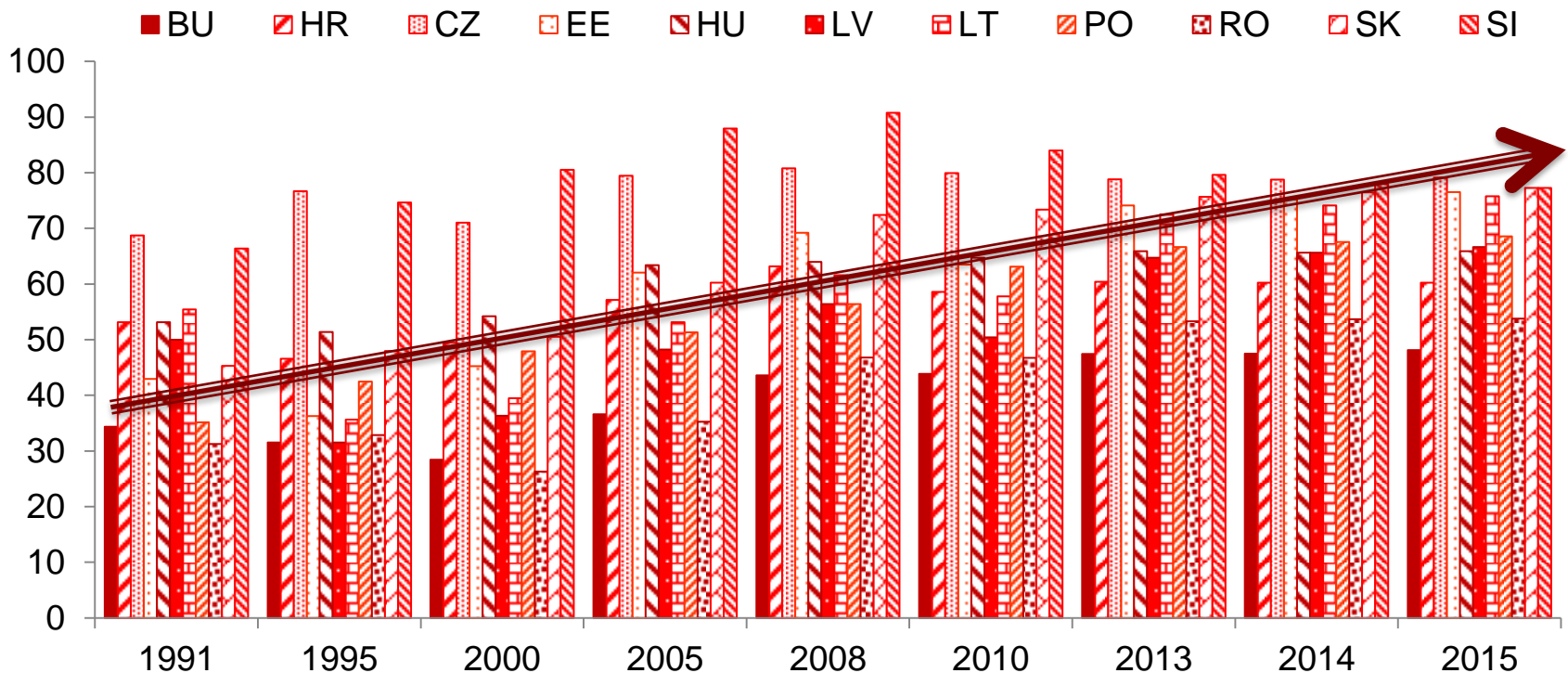
- “1” no steps or almost no steps towards EU norms
- “2” some steps towards EU norms
- “3” Significant progress
- “4” substantial improvement in the considered institutional field
- “4.3” institutional standards of typical advanced industrial economies

Development of the Institutional Indicators (Average Data)

	LS priv	SmsS priv.	Ent. Restr.	Price lib.	Trade & Forex	Banking reform	Securities markets	Competition Policy
2007-2010, mean	3.5	4	2.7	4.2	4.2	3.3	2.7	2.7
Cluster 1 (HU, PL, EO, LT, LV, SK)	3.8	4.3	3.4	4.3	4.3	3.8	3.4	3.4
Cluster 2 (BG, RO, SI, HR)	3.5	4.1	2.8	4.2	4.3	3.6	2.9	2.8
Cluster 3	3.6	4.0	2.4	4.3	4.3	2.8	2.0	2.2
Cluster 4	3.0	3.7	2.1	4.0	4.0	3.0	2.0	2.1
2004-2006, mean	3.4	4	2.7	4.2	4.2	3.2	2.5	2.4
Cluster 1 (CZ, HU, PL, EO, LT, LV, SK)	3.8	4.3	3.4	4.3	4.3	3.8	3.3	3.2
Cluster 2 (BG, RO, SI, HR)	3.5	4.0	2.8	4.2	4.3	3.5	2.6	2.5
Cluster 3	3.2	3.9	2.2	4.2	4.2	2.7	2.0	2.1
Cluster 4	2.6	3.2	2.1	4.0	3.4	2.6	1.8	1.2
1999-2003, mean	3.1	3.8	2.4	4.1	4	2.8	2.3	2.2
Cluster 1 (CZ, HU, PL, EO, LT, LV, SK, SI, HR, BG)	3.5	4.3	3.0	4.2	4.3	3.4	2.9	2.7
Cluster 2 (RO)	3.0	3.8	2.0	4.1	4.0	2.4	1.8	2.0
Cluster 3	2.2	2.6	1.7	4.0	3.1	2.3	1.3	1.0
Cluster 4	1.5	3.0	1.4	3.3	2.1	1.5	1.3	1.0
1995-1998	2.7	3.6	2.2	3.8	3.5	2.4	2.0	1.9
Cluster 1 (CZ, HU, PL, EO, LT, LV, SK, SI, HR)	3.4	4.2	2.8	4.1	4.1	3.0	2.6	2.4
Cluster 2 (RO, BG)	2.6	3.4	2.0	3.8	3.7	2.3	1.6	1.7
Cluster 3	1.1	2.5	1.1	2.7	1.5	1.2	1.0	1.0
1991-1994, mean	1.6	2.6	1.6	3.4	2.7	1.7	1.3	1.5
Cluster 1 (HU, PL, CZ, SK)	2.4	3.4	2.6	4.1	3.8	2.6	1.8	2.3
Cluster 2 (SI, LV, LT, EO, BG, HR)	1.7	2.8	1.6	3.8	3.0	1.8	1.3	1.5
Cluster 3 (RO)	1.2	2.0	1.1	2.7	1.9	1.1	1.1	1.2

Source: Own calculations, based on EBRD data

Continuous Growth in the New EU-Member States (GDP per capita to the EU-average)



Source: WIW

In the medium term, the institutional convergence towards EU standards positively impacted income convergence in the New EU-Member States.

China: Transformation experience

Gradual transformation approach

- More than three decades of economic reform
- Transformation from one of the poorest economies in the world to
 - the second largest economy measured by nominal exchange rates
 - or the number one largest economy in the world measured by purchasing power

Main pillars of growth

- Creation of competitive environment (specific economic zones)
- Encouragement of technological development

Recently: slowdown of growth

Study of Chen et al (2015): “State Capitalism vs. Private Enterprise”

The major institutional problems in China

- the difficulties for the private firms to enter and to grow in many economic sectors due to institutional barriers and discriminations against the private sector
- state-owned firms obtain most of the resources from the government

But

- Private business groups reallocate capital flows from units with relatively worse investment opportunities to units with relatively better investment opportunities.
- State groups do the opposite: on average, they reallocate capital from firms with the best prospects to the firms with the worst prospects.

Outcome

- Reduction of capital productivity

Summary of Findings

Reform steps to implement

- Fiscal discipline
- Gradual privatisation of SOE to reduce burden on budget
- Governmental investment programmes to increase technological readiness
- Increase of good market and labour market efficiency through introducing of competitive elements/competition

Contacts

Prof. Dr. Marina Gruševaja

marina.grusevaja@hs-rm.de

Maria Schappo

maria.shappo@tut.by

German Economic Team Belarus

c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

www.get-belarus.de

