

The Inevitable Social Security Reforms in Belarus

Kateryna Bornukova, BEROc

January 2016

In 2016, Belarus will face the need to reform its social protection policy. The three main directions of reforms will be to departure from subsidized tariffs, to reform the pension system, and to increase unemployment benefits. Needless to say, some of these reforms will be highly unpopular. The government needs not only to cut expenditures, but also to think about new ways of providing targeted social support.

Faced with an anemic growth over the last 5 years and a GDP decline of 3.9 percent in 2015, Belarus has to rethink its economic policy. While the government is so far reluctant to undertake serious structural reforms, the decrease in budget revenues and lack of access to international financing leaves the authorities with few other options than to reform the social security system. This push might actually be a good thing, as social security in Belarus needs to depart from its current non-sustainable model of subsidies for everyone, to a model of focused means-tested social support.

Subsidized Tariffs

A lot of government-set tariffs in Belarus are currently subsidized. Utility service tariffs and transport fees are lower than the costs of providing these services. This is especially true for the heating tariffs, which currently cover 10-20 percent of total costs.

The subsidization policies are inefficient, as they benefit the rich (who consume more) rather than the poor in need of government

support. Moreover, in the case of energy tariffs, cross-subsidization leads to higher energy costs for the firms, making them less competitive. Both prospective creditors, the IMF and the Eurasian Fund for Stabilization and Development, demand that the subsidies are gradually removed.

Zhang and Hankinson (2015) estimate the effects of an increase of the heating tariff on welfare. They find that the burden of higher tariffs will mostly fall on low-income groups. In particular, if the heating tariffs increase to 100 percent of the costs, households from the lowest income quintile will spend over 16 percent of their income on energy. Therefore, the authors conclude that the government should introduce a targeted social assistance together with the tariff increase.

While tariff increases were already introduced in the beginning of 2016, a targeted social assistance is still only a project.

Unemployment Benefits

Despite calling itself a social economy, Belarus has inexplicably low unemployment benefits (currently below 10EUR per month in Minsk). These low unemployment benefits contribute to a very low registered unemployment rate – 1 percent in November 2015. The more adequate measure of unemployment, based on labor force surveys, is classified in Belarus. However, large-scale job cuts in the biggest state-owned enterprises suggest that unemployment is a real threat.

Akulava (2015) argues, that given the current situation on the labor market, unemployment benefits should be increased to at least the minimal subsistence level. However, unemployment benefits *per se* will not solve all the problems in the labor market, and Belarus needs more active labor market policies facilitating the retraining and reallocation of workers.

The IMF has also emphasized the need to introduce proper unemployment insurance. The government has already pre-announced an introduction of increased unemployment benefits, but the details and dates are still unclear. There is a risk that, as many other policies in Belarus, the unemployment support will favor the state-controlled part of the economy and only offer increased support for those laid off from state-owned enterprises.

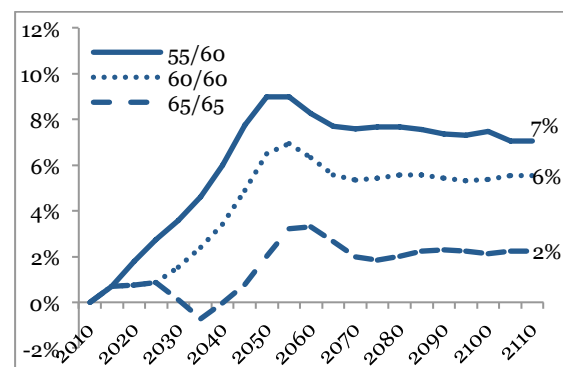
Pension Reform

The Belarusian pension system has not change much since the Soviet times: it is still a pay-as-you-go redistributive system, with a pension age among the lowest in Europe (55 for women and 60 for men). The Pension Fund first registered a deficit in 2013, and given the ageing population, deficits will only deepen in the future.

Due to relatively low fertility rates (1.6 per woman) and increasing life expectancy, the Belarusian population is quickly ageing: In 2015, there are 4 persons of retirement age per 10 persons of working age, but in 2035, this ratio will be 6 per 10.

Lisenkova and Bornukova (2015) build a demographically accurate overlapping generations model of Belarusian economy to estimate the stability of the pension system. They find that if the current parameters do not change, the deficit of the Pension Fund will explode up to 9% in 2050 (line 55/60 in Figure 1).

Figure 1. The Pension fund deficits under different scenarios, in % of GDP



Source: Lisenkova and Bornukova, 2015

The authors also estimate different reform scenarios. An increase in the contribution rate and a decrease in the replacement rate (ratio of average pension to the average wage) do not seem feasible, as the current contribution rate of 29 percent is already too high, and the replacement rate is near the minimum set by the National Development Strategy 2020. The most obvious reform is then to increase the pension age for women, who retire 5 years earlier than men, despite having 10 years longer life expectancy. However, as can be seen from line 60/60 in Figure 1, equating the pension ages for women and men will not be enough to curb the deficits. Another simulated reform is to gradually increase pension age to

65 years for everyone, after increasing it to 60 for women only. This reform would mean that the deficits would be kept below 1 percent of GDP (and even generate a small profit by 2035, although in a very long perspective the deficit will increase to 2 percent again (line 65/65)). In the very long run, Belarus needs to build a fully funded pension system.

The need to increase the pension age is already on the public debate agenda, and the authorities recognize the need for reforms. Needless to say, however, this move will be very unpopular.

Conclusion

The current economic crisis gives an opportunity and incentive to make Belarusian social policy more efficient. This policy brief describes the three major fields of reform. Subsidized tariffs are unfair and inefficient, but before removing subsidies the government should create a targeted system of social assistance to those in need. Increasing unemployment (and demands from the creditors) may force the government to change its unemployment benefit policy. The pension system needs reforms, but these would be difficult to implement due to unpopularity.

▪

References

- Akulava, M. (2015), 'Unemployment insurance as a tool of social protection', BEROC policy paper series, PP no. 32 (in Russian)
- Lisenkova, K., and Bornukova K. (2015), 'Effects of Population Ageing on the Pension System in Belarus', BEROC working paper series, WP no. 28
- Zhang, F., and Hankinson, D. (2015), 'Belarus Heat Tariff Reform and Social Impact Mitigation,' World Bank Publications, The World Bank, number 22574

Kateryna Bornukova

Belarusian Research and Outreach Center (BEROC)

bornukova@beroc.by
<http://www.beroc.by>



Kateryna Bornukova is a research fellow at the Belarusian Research and Outreach Center (BEROC) since August 2010.

She received her Bachelor's degree from Odessa National University in 2002, and obtained her MA in Economics from Kyiv School of Economics (EERC) in 2004. Bornukova is a PhD candidate in Economics at the Universidad Carlos III de Madrid.

Her research interests include macroeconomics, labor supply, business cycles, and female labor force participation.