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Labor Market Trends and Institutions in Belarus

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LABOR MARKET TRENDS AND INSTITUTIONS IN BELARUS

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Abstract

In most countries of Central and Eastern Europe and the Commonwealth of Independent States, the transition to market led to the emergence of a private sector and open unemployment. The Belarusian labor market is characterized by low official unemployment, combined with a low share of the private sector in the aggregate employment. However, the cumulative fall in employment since 1990 has been similar to other transition economies, leading to a sharp reduction of labor force, and the youth unemployment remains high. The mismatch in skills between the unemployed and the vacancies and the geographical mismatch suggest that policies aimed at improving skills and increasing mobility are needed. At the same time, the low vacancy-unemployment ratio calls for policies aimed at encouraging private job creation. An immediate policy concern for the government is to launch a labor market reform that would balance providing adequate protection for workers with the need to design the incentives for the unemployed workers to search for new jobs.

Key words: labor markets, institutions, transition

JEL classification: J21, J31, P23

Labor Markets in Belarus

Zuzana Brixiova and Vera Volchok¹

The transition from a planned to market economy has led to a significant distortion in the labor markets in most countries of Central and Easter Europe (CEE) and the Commonwealth of Independent States (CIS). At the outset of transition, it was expected that high unemployment would emerge for a short period, owing to a rapid elimination of jobs in the state sector, which are not being fully replaced by new jobs in the emerging private sector. However, unemployment remains high in many of the CEE and CIS countries even today and it has become one of the most difficult aspects of transition. With persistently low official unemployment, Belarus is one of the exceptions in this respect and also compares favorably with most European countries in this respect.

This paper examines reasons for this seemingly good performance, especially during the last several years of the transition. The paper identifies a number of weaknesses in the labor market in Belarus. It points out that the country's good performance is, to a large extent, due to postponed reforms in the labor markets, which eventually will need to be undertaken to put Belarus on the path of sustainable development.

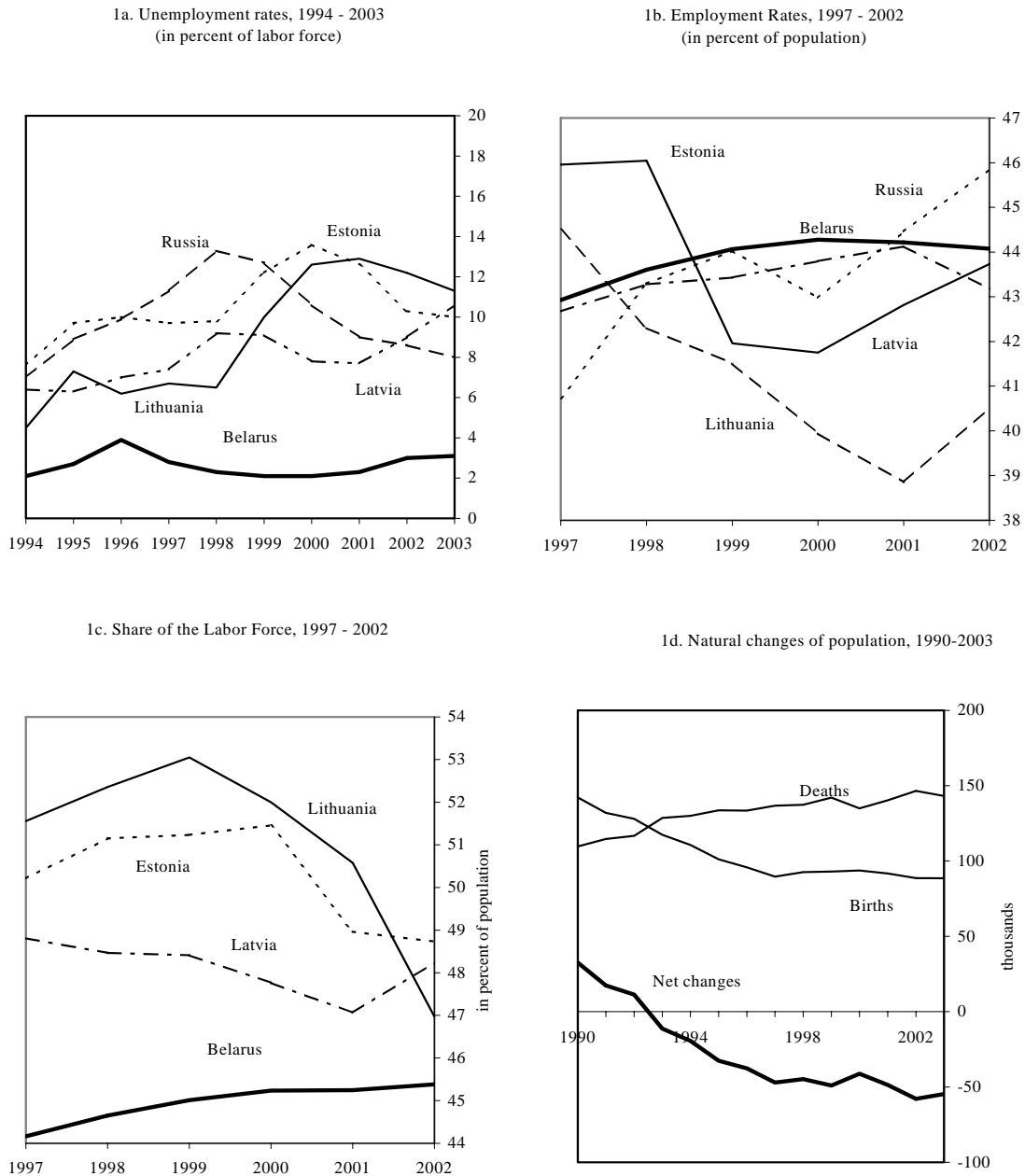
I. Unemployment, Employment and Wages

Contrary to those in most transition economies, the Belarusian labor market is characterized by low official unemployment. At less than 3 percent of the labor force, the registered unemployment remains significantly lower than in the Baltics and Russia (Figure 1a), as well as in the other recently acceded EU countries. At the same time, the share of employment in the formal private sector is also among the lowest in this group.²

¹ International Monetary Fund and the Institute for Privatization and Management, respectively. We thank Veronica Bacalu, Eric Brunat, Julia Lyskova, Thomas Richardson, Sharon Umer, and participants of the conference on Catalysts and Impediments of Economic Development in Central and Eastern Europe, organized by the University of Vilnius on October 14 – 15, 2004, for helpful comments on an earlier draft. The views expressed are those of the authors and do not necessarily reflect those of the International Monetary Fund or the Institute for Privatization and Management.

² According to the Belarusian statistics, the share is 45 percent of total employment, since corporatized public enterprises and collective farms are classified as private sector employers.

Figure 1. Belarus: Demographic and Employment Changes



Source: IFS and the Ministry of Statistics and Analysis of the Republic of Belarus.

Another distinguished characteristic of Belarus is surprisingly high and persistent youth unemployment – Belarusian youth between 15 and 25 years of age constitute almost 40 percent of the unemployed. Unemployment of low skilled-workers and women is also high, with these groups accounting for 73 and 63 percent of the unemployed in 2003 (IMF 2004).

The deterioration in the labor markets can be seen from the employment data, which shows that the employment rate (measured by share of employed in the total population) declined from 51 percent in 1990 to only 44 percent in 2003. These rates have been comparable to those in the Baltics and Russia, and other countries in the region (Figure 1b). Instead of increasing the official unemployment, the decline in employment has led to lower labor force participation, as workers have been discouraged by the lack of viable employment opportunities (Figure 1c). The low labor force participation and employment rates have been taking place in the context of declining population (Figure 1d), indicating that the deterioration of the labor market situation is more pronounced than it would seem from evaluating only the employment and unemployment data.³

The regional disparities in employment and wages between the urban and rural areas have widened during the transition (Figures 2a and 2b). In Minsk-city in particular the average wages are significantly higher and job opportunities are more abundant relative to the rest of the country, leading to a continuous migration from the provinces to the capital (Figure 2c). The persistent decrease of population has fallen entirely on the rural areas (Figure 2d). The experience of neighboring countries suggests that regional disparities in employment are likely to widen further with the progress of transition and additional structural changes in the economy.⁴

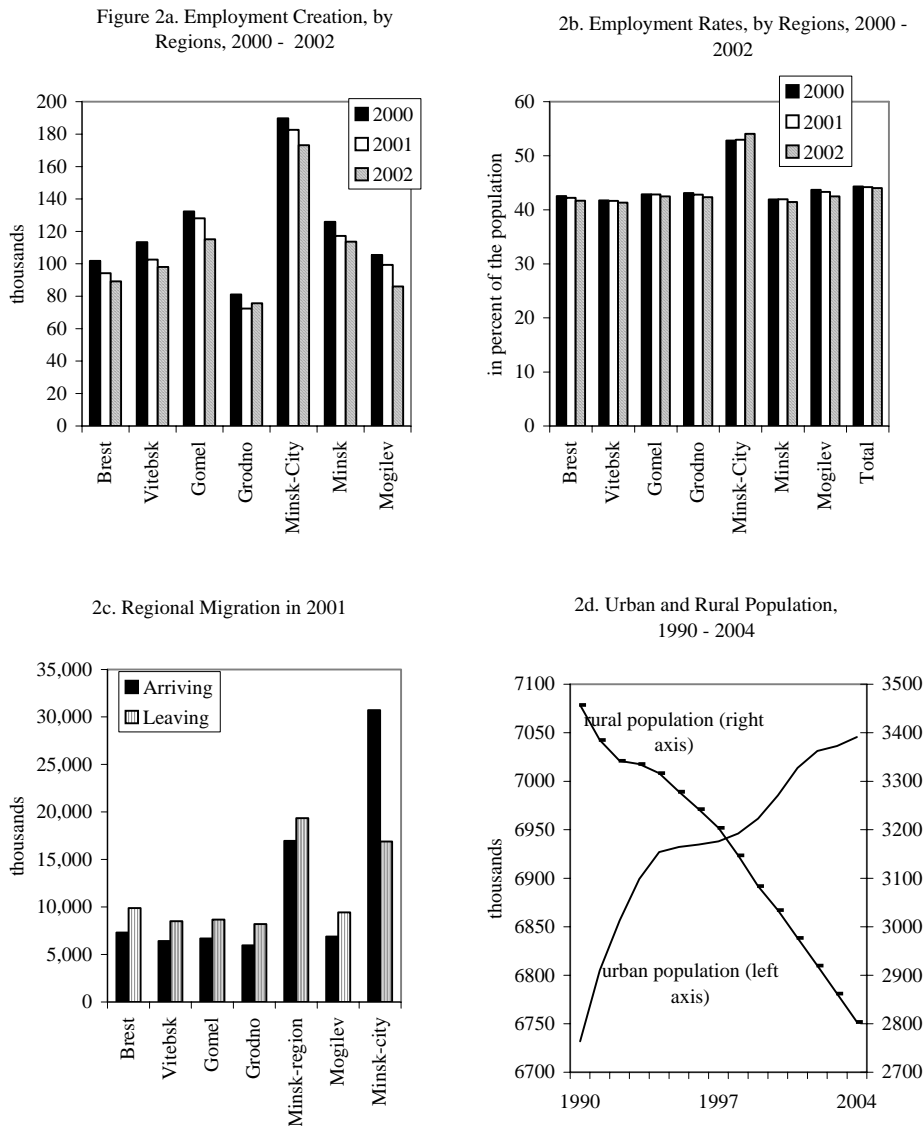
The policy of targeted large wage increases (in US\$ terms) resulted in a widening gap between real wages and the labor productivity. Since 1995, real wage increases have significantly outpaced increases in labor productivity (Table 1), and this trend continues.⁵ The wage increases created inflationary pressures; put additional strain on already-struggling state-

³ The population of Belarus declined from 10,189 thousands people in 1990 to 9,849 thousands in 2004. Employment continued to decline in Belarus in the last several years, while it has been increasing in Lithuania. Specifically, in Belarus the employment declined by 2.3 percent between 2000 and 2003, but it increased by 2.9 percent in Lithuania during the same period. Since 1990, the employment in Belarus declined by 16 percent.

⁴ According to the European Commission (2002), the regional disparities in employment in the recently acceded EU countries were lower than in the EU, indicating that even in these countries the differences are likely to widen as their employment structures approach the average of the EU-15.

⁵ Similarly to other CIS countries, the real wages have dropped dramatically during the period of high inflation prior 1995. Since 1995, the largest wage increases occurred in financial and computer services, while wages in agriculture declined.

Figure 2. Belarus: Regional Differences



Source: Ministry of Statistics and Analysis of the Republic of Belarus.

owned enterprises, and, in some cases, led to wage arrears.⁶ At the same time, they contributed to the maintenance of minimum living standards for a large share of the population. However, they also lowered workers' incentives to advocate economic reforms.

⁶ After a sharp drop in 1996, wage arrears were kept at relatively low levels. In recent years, the arrears were cleared in December through directed credits from the banks, but reappeared in January.

Table 1. Indices of Labor Productivity, Real Wages, GDP and Employment 1995 - 2002
(1995 = 100)

	1995	1996	1997	1998	1999	2000	2001	2002
Labor productivity	100.0	103.9	115.6	123.9	126.7	130.3	137.1	145.2
Real Wages	100.0	105.2	120.3	141.8	152.2	170.6	221.0	238.4
Employment	100.0	99.0	99.1	100.2	100.7	100.7	100.2	99.3
Real GDP	100.0	102.8	114.5	124.1	127.6	131.2	137.4	144.2

Source: Authors' estimates based on the data from the Ministry of Statistics of the Republic of Belarus.

II. Mismatch of skills

A key element of transition has been the relocation of labor from the state to the private sector, as well as the structural shift from industry and agriculture to services. While the transition economies possess a highly educated labor force relative to other countries at a comparable level of the economic development, the skills of the labor force often do not match the demands of transition (Druska and others, 2002; Vinogradov, 2002). Under central planning, the countries invested heavily into the basic and technical education, and achieved high levels of literacy and technical expertise. Still, for the needs of the market economy the human capital exhibited excessive specialization and bias towards hard sciences and engineering, while skills in business, law, and social sciences were lacking. This hampered labor market adjustment, as evidenced by high unemployment coexisting with a high number of vacancies in most transition countries (Brixiova, Li and Yousef 1999).

A shift from agriculture and industry towards services can also be observed in Belarus, albeit it has occurred at a slower pace than in a number of other countries. In 2001, the employment share of services, while similar to that in Poland and Slovenia, was lower than those in the remaining EU candidate countries, as well as the EU-15 average (Figure 3a). Moreover, a substantial portion of the jobs were created in the public services -- health, education, and public administration (Table 2). Employment potential of private services -- such as financial intermediation, real estate, and transport -- remains mostly unexplored. The outward shift in the vacancy-unemployment curve suggests that the skill mismatch between the unemployed and vacancies is becoming even more apparent and may be hampering needed structural changes (Figure 3b). In addition, in comparison with other transition countries, the number of publicly posted job openings in Belarus remains low.

Table 2. Belarus, Lithuania, and the EU-15: Employment by Sectors (in percent of total)

	Belarus				Lithuania				EU-15 average
	1990	1995	1999	2001	1990	1995	1999	2001	2001
Agriculture, forestry and fishing	20	20	16	14	21	24	20	16	3.9
Industry and construction	42	35	35	35	41	28	27	28	28.8
Services	38	46	49	51	38	48	53	56	67.3
Public administration, education, health, social care	19	21	23	24	14	19	23	25	24.2
Transport, financial services, real estate, other	13	14	15	15	16	15	14	14	24.4

Source: Authors' estimates based on the data from the Lithuania Statistics Department, Ministry of Statistics and Analysis.

The lack of reforms of the educational system is not helping to close the emerging skill gap in the labor market, and the changes in the distribution of university and high school graduates have been implemented at a slow pace. The growth of graduates with technical education continues to be strong, even though between 1999 and 2003, their share in total declined slightly (from 24.5 to 23.6 percent). At the same time, the business and economics graduates accounted for the largest share in total graduates in 2003. The fastest growth (81 percent) was recorded among law school graduates (Table 3). Still, between 1999 and 2003 the share of employees engaged in business-related occupations remained at only about 5 percent, and wages in this sector grew less than the average.

Table 3. Distribution of Graduates with Secondary and University Education

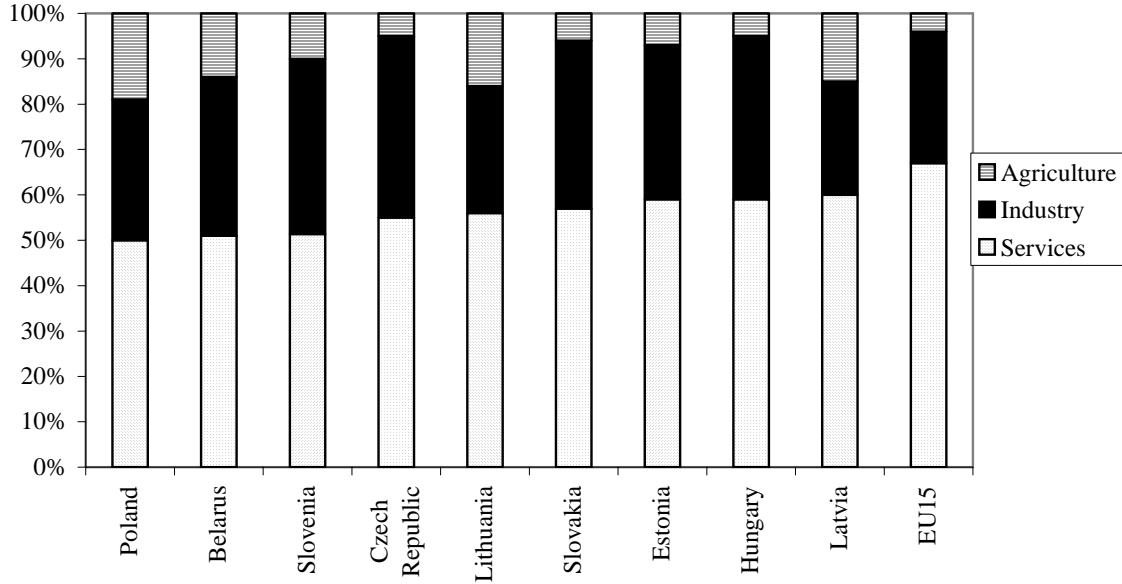
	Number		Share in total			Contr. to Growth
	1999	2003	1999	2003	Growth	
Law	5,264	9,502	7.5	9.6	80.5	6.0
Business and Economics	15,647	26,177	22.3	26.6	67.3	15.0
Technical and Engineering	17,156	23,256	24.5	23.6	35.6	8.7
Arts, social sciences, humanities	4,762	7,067	6.8	7.2	48.4	3.3
Other	27,319	32,509	38.9	33.0	19.0	7.4
Total	70,148	98,511	100.0	100.0	40.4	40.4

Source: Authors' estimates based on the data from the Ministry of Statistics and Analysis.

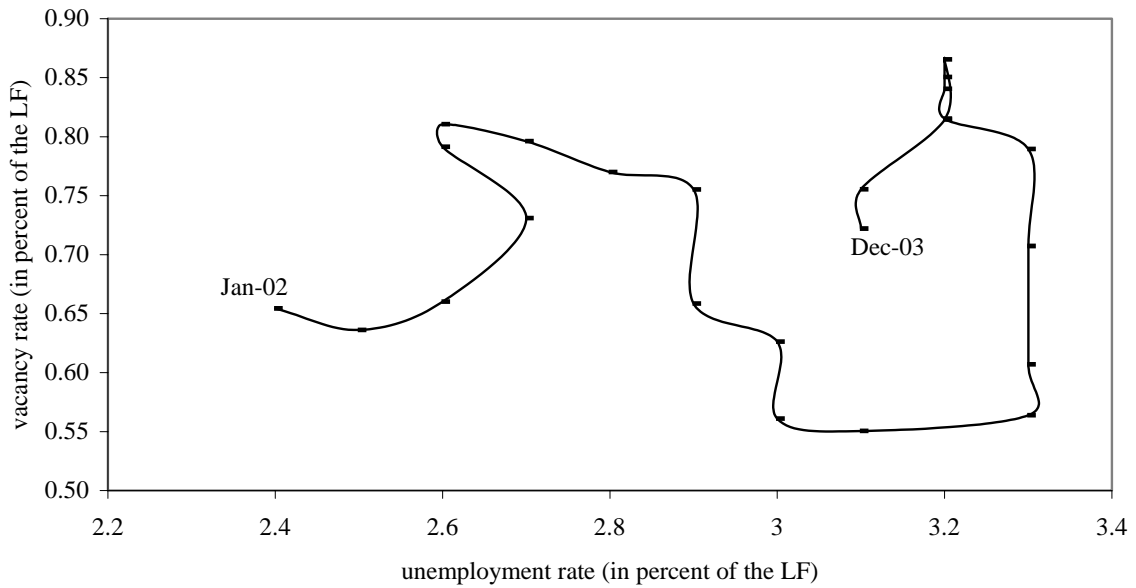
The experiences of other transition economies show that the private sector is a driving force behind the economic growth and job creation. In Belarus, development of the private sector has been very slow: according to the EBRD, in 2003 the share of GDP produced in the private sector was less than 25 percent, which is among the lowest in the CIS. Belarus also continues to have the lowest number of the small and medium-sized enterprises in the region, and employment in these enterprises has stagnated in the past few years. Besides, similarly to other transition countries, the employment growth in services was not sufficient to compensate for the job losses in industry and agriculture. Without removing obstacles to the private sector

Figure 3. Belarus: Structural Changes in the Labor Markets, 2001

3a. Sectoral Distribution of Employment



3b. Beveridge Curve, Jan 2002 - Dec 2003



Source: Author's estimates based on the data from the Ministry of Statistics and Analysis of the Republic of Belarus.

development (unstable tax and legal framework), growth of the service sector will be limited. The incentives for workers to acquire skills relevant for the private sector will remain low, existing labor market deficiencies are likely to be exacerbated, and the skill gap between Belarus and other transition economies in the region may widen further.⁷

II. Conclusions

The article illustrates that Belarus is still in the early stages of transition from a centrally planned to a market economy, including in the area of labor market reforms, and that a portion of the labor force may be equipped with skills that do not match the needs of a market economy. The experience of the recently acceded EU countries shows that tackling the employment situation during the transition requires creating a favorable business environment, as well as increasing labor market flexibility and redesigning labor market institutions. In some instances, well targeting retraining programs may also be effective.

An immediate concern for the Belarusian government in the area of labor market reforms is how to facilitate the reallocation of workers across sectors and regions, and encourage the labor force to acquire the skills demanded by the market, while minimizing the social costs. For the success of the reforms, it is important that the employment creation efforts increase “job quality” rather than merely offering jobs providing for minimum living standards. The government thus faces the challenge of launching a labor market reform that would provide an adequate protection for workers while reducing the role of the public sector in the economy.

⁷ In 2003, the share of employees with higher education working in foreign firms operating in Belarus – which are the best proxy for a genuine private sector – was higher than in the domestic firms (32 vs. 20 percent), while the share of employees with the basic education was only 2 percent in the foreign firms vs. 7 percent in the Belarusian firms.

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