

and utilities, much of the assistance goes to those who do not need it effectively. The system is prone to abuse.

On gaining independence, Belarus opted for preserving the old social security system, and even to increase the scope of benefits rather than build an effective new system. Now, the government has run out of funds to continue these paternalistic policies.

The mechanism of allocating benefits is very complicated and obscure. To cope with social security expenditure, the government raises taxes, thus forcing contributors to conceal their income and encouraging employees to claim benefits rather than increase their official income. Therefore, the government contributed to fostering parasitical attitudes, including among people still in active employment.

As a result, people regard allowances as guaranteed extra pay to top their wages, pensions and student allowances. Benefits are not viewed as incentives to act, but rather as compensation for low wages in the state-owned sector. Such mentality is the main cause behind high numbers of claimants.

The government seeks to retain its monopoly over the allocation of benefits and ignore advantages of the market economy that gives most people an opportunity to earn a living. In contrast to official declarations, benefits have been gradually eroding. This increases public discontent with public policies.

Pension system

The Belarusian authorities have taken some inroads towards the pension system's reform. The government endorsed a pension system reform plan in April 1997. The plan calls for establishing a three-tier system. The first tier consists of disability and survivor benefits paid out of the government's annual budget. The second tier is made up of mandatory individual accounts, and the third tier is voluntary individual accounts.

Since about 80 percent of the elderly in Belarus are entitled to 'occupational' benefits, if the reform is carried out these benefits will be made up of the minimum pension paid to anyone with the required years of service (ca. 20 years),

and an additional individual benefit contingent on the average taxable salary for the whole service period.

On January 1, 2003, the government adopted a regulation introducing a notional pre-defined contribution scheme for the State-run PAYGO tier where each insured has a hypothetical personal account made up of all contributions made during his/her working life. This was a step to tie pensions to contributions.

This is the technical side of the reform. In practical terms, the reform calls for eliminating state monopoly in the pension services market. As long as the Belarusian pension fund is managed by the government, individual accounts will be notional rather than real-term. Contributions paid by employees into the fund are redistributed among the retirees immediately. At the same time, the government has not announced any plans to raise the social tax, although such a step is likely. It may, however, escalate social tension. Even if the State decides to give up its monopoly under certain conditions, this will not automatically address all problems in the pension system.

Belarus needs to establish an effective inflation-proof individual account scheme in an inflationary environment of ca. 40–50 percent per annum.

Currently, there are 2.62 million people eligible for retirement benefits, i.e. 26.2 percent of the population, or 58.2 percent of people in active employment. The employee-to-pensioner ratio has dropped to 1.7 in 2003 from 2.2 in 1990. This puts Belarus at a major disadvantage, since the ratio is much higher in many other Central and East European countries – 2.3 in Poland and 2.7 in Slovenia.

2001 saw the first retirement of baby boomers born between 1945 and the early 1960s. Therefore, the number of retirees is likely to rise in the next few years. The proportion of retirees (60 for men and 55 for women) in Belarus is likely to rise to 28 percent in 2020 from 21.3 percent in 2000.

The pension expense-to-GDP ratio rose from 8.5 percent in 1995 to 9.5 percent in 2001. The Social Security Fund accounts for 12 percent of GDP.

A wide range of occupational groups are entitled to early benefits, such as people working in hazardous conditions. At present, there are more than 20 categories of those entitled to early benefits; they total 33 percent of all pensioners. They can claim benefits five to ten years before reaching retirement age.

These legal provisions encourage employees to seek early retirement rather than work productively. Those entitled to ‘occupational’ pension at the age of 55, excluding retired military, police and KGB servicemen, make up for 13.5 percent of the total number of pensioners.

The Social Security Fund has no reserves, as it struggles to meet current payments. It is acceptable international practice for a pension system to have a three-month reserve of funds for a risk-free operation.

The Belarusian government has no long-term strategy to meet its financial commitment to present and future pensioners. An annual Social Security Fund equals close to half of the consolidated annual budget. A pension system malfunction may cause the regime to collapse and trigger off a deep social crisis.

A reform of the pension system will reveal latent unemployment, thus leading to reducing the number of contributors and swelling numbers of beneficiaries.

Financial strain on the Social Security Fund, caused by the increasing number of pensioners and shrinking labor force, will force the government to raise employers’ social security contributions, now at 35 percent of payroll. Therefore, labor cost may increase. This may impair competitiveness of Belarusian goods and encourage illegal (unregistered) employment, or force employers to conceal or understate employee salaries.

The Social Security fund is in need of additional sources of funds. The government would find it very difficult to source them from an unreformed economy given the absence of proceeds from the sale of industrial enterprises and land.

The government’s efforts to set up the notional defined contribution scheme cannot improve financing of the Social Security Fund. The measure should be regarded as a necessary, albeit initial step to transform the solidarity system into a system of individual accounts.

The government has considered the idea of raising retirement age to 65 for men and 60 for women. The step is reasonable but, consequently, only a fraction of the country’s male population would live long enough to reach retirement. The measure would certainly trigger public protests and could rock current or future political set-ups.

Thus, pension reform delays entail the following threats:

- redistribution will remain unfair as part of the money due to ‘ordinary’ pensioners goes to privileged groups;
- living standards of pensioners will decline further due to benefits being scant;
- life expectancy at retirement may fall;
- the Social Security Fund may collapse.

The reform should eliminate or reduce the risks. Its main purpose is to establish an effective and fair system on a par with international social security standards.

Housing

The state of repair of the housing stock is one of the country’s most serious problems. It is necessary to draw a line between urban and rural housing. The rural housing stock is unlikely to cause major problems for national policies in a foreseeable future. Firstly, because the service life of properly maintained individual homes is much longer, secondly because the government is not committed to renovate or repair owner-occupied homes and, thirdly, in 2002 the country had 120,000 vacant houses, of which 99 percent in rural areas, including just 0.3 percent in areas contaminated by radioactive substances. Clearly, a crisis of the rural housing stock is not anywhere near.

The state of repair of the urban stock is a cause for major concerns. Most of the multi-storey residential buildings in medium-sized and large cities were erected between 1960 and 1990. 73% of apartment dwellers live in such houses. Just 6 percent of multi-unit houses were built after 1991.

As per current regulations, the prefabricated concrete buildings erected in the first mass housing construction series (the ‘Khrushchovkas’) can serve 40 years without repairs; other prefab concrete structures can serve 50 to 70 years depending on type. Brick houses can be used for more than 100 years without an overhaul. Ca. 55 percent of the apartments commissioned between 1960 and 1980 are in the prefab concrete category. Most units built during the first